THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kiu Hung International Holdings Limited (the "Company"), you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Company.

僑雄國際控股有限公司

Kiu Hung International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00381)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO FURTHER ACQUISITION OF COAL BUSINESS

Financial adviser to Kiu Hung International Holdings Limited

KINGSTON CORPORATE FINANCE LIMITED

Independent financial adviser to the Independent Board Committee and the Independent Shareholders of Kiu Hung International Holdings Limited

大華證券(香港)有限公司

GRAND CATHAY SECURITIES (HONG KONG) LIMITED

A notice convening an extraordinary general meeting of the Company to be held at Mont Blanc Room of the Pacific Place Conference Centre at Level 5, One Pacific Place, 88 Queensway, Hong Kong at 2:30 p.m. on Monday, 18 February 2008 is set out on pages 407 to 408 of this circular. If you are not able to attend and/or vote at the meeting, you are strongly urged to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting or any adjournment thereof should you so wish.

31 January 2008

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In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Acquisition"	the acquisition of the Sale Share and the Indebtedness by the Purchaser from the Vendor pursuant to the Acquisition Agreement
"Acquisition Agreement"	the agreement dated 16 August 2007 and the letter of amendments dated 4 September 2007 entered into between the Purchaser and the Vendor in respect of the Acquisition
"acting in concert"	has the meaning ascribed thereto in the Takeovers Code
"Adjustment A/B/C"	the terms of the adjustment on the Consideration as described in the sub-section headed "Consideration and payment terms" under the section headed "THE ACQUISITION AGREEMENT" in this circular
"Announcement"	the announcement of the Company dated 4 September 2007 in relation to, among other things, the Acquisition
"associate(s)"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"Coal Expert A" and "Coal Expert B"	the coal experts of the Group whose experience is set out on page 21 of this circular
"Company"	Kiu Hung International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange
"Completion"	completion of the Acquisition
"Completion Accounts"	the audited financial statements of each of Lucky Dragon and Heng Yuan as at Completion to be prepared by an accounting firm as agreed by the Purchaser and the Vendor
"connected person(s)"	has the meaning ascribed thereto in the Listing Rules
"Consideration"	the consideration of HK$840 million (subject to Adjustment A/B/C) for the Acquisition
"Consideration Share(s)"	new Share(s) to be issued by the Company as part of the Consideration
"Conversion Share(s)"	new Share(s) to be allotted and issued to the holder of the Convertible Notes upon exercise of the conversion right attaching to the Convertible Notes
"Convertible Note(s)"	the zero coupon convertible note(s) with a two-year term in the principal amount of HK$260 million (subject to Adjustment A/B/C) to be issued as part of the Consideration
"Directors"	the directors of the Company

"EGM"	the extraordinary general meeting of the Company to be convened at Mont Blanc Room of the Pacific Place Conference Centre at Level 5, One Pacific Place, 88 Queensway, Hong Kong at 2:30 p.m. on Monday, 18 February 2008 for, inter alia, approving the Acquisition and the transactions contemplated thereunder
"Enlarged Group"	the Group as enlarged by the Acquisition
"First Choice"	First Choice Resources Limited, a company incorporated in the British Virgin Islands and is a subsidiary of the Company acquired through a series of acquisitions with details set out in the announcements dated 26 September 2006, 1 February 2007, 3 April 2007 and the circular dated 30 March 2007 issued by the Company
"Grand Cathay"	Grand Cathay Securities (Hong Kong) Limited, a corporation licensed to carry out type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder
"Group"	the Company and its subsidiaries
"Heng Yuan"	通遼市恒源礦業有限責任公司 (Tongliao City Heng Yuan Mining Company Limited), a wholly-owned foreign enterprise established in the PRC and a wholly-owned subsidiary of Lucky Dragon
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Huanghuashan Coal Mine"	the Huanghuashan Coal Mine ("黃花山煤礦") situated in the Tongliao City of Inner Mongolia ("內蒙古通遼市")
"Indebtedness"	the outstanding indebtedness of Lucky Dragon owed to the Vendor at Completion
"Independent Board Committee"	a board comprising all the independent non-executive Directors to advise the Independent Shareholders as to the terms of the Acquisition Agreement and the transactions contemplated thereunder
"Independent Shareholders"	Shareholders other than Mr. Yu, Ms. Kau and their respective associates and those who are required to abstain from voting under the Listing Rules and their respective associates (if any)
"Independent Third Party(ies)"	third party(ies) independent of the Company and its connected persons and is not connected person(s) of the Company
"Inner Mongolia"	the Inner Mongolia Autonomous Region of the PRC

"JORC Code"	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004)
"Jumplex"	Jumplex Investments Limited, a company incorporated in the British Virgin Islands and is a subsidiary of the Company acquired through a series of acquisitions with details set out in the announcements dated 26 September 2006, 1 February 2007, 3 April 2007 and the circular dated 30 March 2007 issued by the Company
"Last Trading Date"	15 August 2007, being the last trading day for the Shares before the date of the Announcement
"Latest Practicable Date"	28 January 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lucky Dragon"	Lucky Dragon Resources Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Vendor
"Lucky Dragon Agreements"	the two written agreements both dated 19 July 2007 whereby Lucky Dragon acquired the entire equity interest in Heng Yuan from certain Independent Third Parties
"Lucky Dragon Group"	Lucky Dragon and its subsidiaries
"Management Accounts"	the unaudited balance sheets of Lucky Dragon as at 31 July 2007 and Heng Yuan as at 15 July 2007 and the unaudited profit and loss accounts of Lucky Dragon for the period commencing from its date of incorporation to 31 July 2007
"Mingrunfeng"	Inner Mongolia Mingrunfeng Energy Co., Ltd. ("內蒙古銘潤峰能源有限公司") (formerly known as Beijing Mingrunfeng Trading Co., Ltd. ("北京銘潤峰商貿有限公司")), a company established in the PRC and is a subsidiary of the Company acquired through a series of acquisitions with details set out in the announcements dated 26 September 2006, 1 February 2007, 3 April 2007 and the circular dated 30 March 2007 issued by the Company
"Mining Expert"	SRK Consulting China Ltd., an independent mining and geological consultant, being the technical adviser appointed by the Company to compile technical reports for the Huanghuashan Coal Mine and the Xi Meng Coal Mine
"MOU"	a memorandum of understanding dated 31 July 2007 entered into between the Purchaser and the Vendor in relation to the proposed acquisition of the Sale Share
"Mr. Yu"	Mr. Yu Won Kong, Dennis, a substantial Shareholder who is interested in approximately 10.11% of the issued share capital of the Company as at the Latest Practicable Date
"Ms. Kau"	Ms. Kau Man Wai, Leslie, a shareholder holding 22.5% issued share capital of the Vendor and a Shareholder who is interested in approximately 3.72% of the issued share capital of the Company as at the Latest Practicable Date

"PRC"	the People's Republic of China
"PRC Exploration Company"	Team 104 of the Inner Mongolia Bureau of Coal Field Geology ("內蒙古煤田地質局104勘探隊"), a holder of the Certificate of Qualification for Geological Exploration ("地質勘查資質證書") issued by the Ministry of Land and Resources of the PRC
"Purchaser"	Growth Gain Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company, being the purchaser under the Acquisition Agreement
"Sale Share"	1 share of US$1.00 in Lucky Dragon, representing the entire issued share capital of Lucky Dragon
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended from time to time
"Share(s)"	ordinary share(s) of HK$0.02 each in the share capital of the Company
"Shareholder(s)"	holders of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial Shareholder"	has the meaning ascribed thereto in the Listing Rules
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"Unusual Movements Announcement"	the unusual price and volume movements announcement of the Company dated 17 July 2007
"Vendor"	Gold Dynasty Investments Limited, a company incorporated in the British Virgin Islands with limited liability, being the vendor under the Acquisition Agreement
"Wise House"	Wise House Limited, a company incorporated in the British Virgin Islands and is a subsidiary of the Company acquired through a series of acquisitions with details set out in the announcements dated 26 September 2006, 1 February 2007, 3 April 2007 and the circular dated 30 March 2007 issued by the Company
"Xi Meng Coal Mine"	The Bayanhushuo Coal Field ("巴彥呼碩煤田") situated in Xilinguolemeng of Inner Mongolia ("內蒙古錫林郭勒盟") of the PRC
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent.

Exchange rate used in this circular:

- *Between Hong Kong dollars and Renminbi: HK$1 = RMB0.92.*

僑雄國際控股有限公司
Kiu Hung International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00381)

Executive Directors:
Mr. Hui Kee Fung
Mr. Hui Ki Yau
Madam Hui Hung Tan, Teresa

Independent non-executive Directors:
Mr. Peng Guanghui
Mr. Kung King Ching, Conrad
Mr. Tang Rongzu

Registered office:
Cricket Square
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P.O. Box 2681
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KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
14th Floor
Yale Industrial Centre
61-63 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

31 January 2008

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO FURTHER ACQUISITION OF COAL BUSINESS

INTRODUCTION

On 4 September 2007, the Board announced that the Purchaser, being a wholly-owned subsidiary of the Company, and the Vendor had entered into the Acquisition Agreement on 16 August 2007 (with letter of amendment dated 4 September 2007) pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share, being the entire issued share capital of Lucky Dragon and the Indebtedness at a total consideration of HK$840 million (subject to Adjustment A, B and/or C).

Lucky Dragon owns the entire equity interest in Heng Yuan which in turn owns (i) the mining rights and other relevant operation facilities and properties in relation to the Huanghuashan Coal Mine and (ii) the exploration rights of the Xi Meng Coal Mine which are located in Inner Mongolia, the PRC.

Upon Completion, Lucky Dragon will become a wholly-owned subsidiary of the Purchaser.

The purpose of this circular is to give you, among other things, (i) further details of the Acquisition and other necessary disclosures as required under Rule 18.09 of the Listing Rules; (ii) the letter of recommendation from the Independent Board Committee; (iii) the letter from Grand Cathay to the Independent Board Committee and the Independent Shareholders; and (iv) a notice of the EGM.

THE ACQUISITION AGREEMENT

Date: 16 August 2007 (with the letter of amendment dated 4 September 2007)

Parties:

Vendor: Gold Dynasty Investments Limited, a company incorporated in the British Virgin Islands with limited liability, is beneficially owned as to 22.5% by Mr. Yu; 22.5% by Ms. Kau; and 55% by Mr. Chung Chi Shing. The principal business activity of the Vendor is investment holding in the PRC.

The Vendor, Mr. Yu, Ms. Kau and Mr. Chung Chi Shing are presumed to be parties acting in concert with each other under the Takeovers Code by virtue of the respective shareholding interests of Mr. Yu, Ms. Kau and Mr. Chung Chi Shing in the Vendor.

As at the Latest Practicable Date, (i) Mr. Yu and Ms. Kau are interested in 344,500,000 Shares and 126,870,000 Shares, representing approximately 10.11% and 3.72% of the entire issued share capital of the Company respectively; and (ii) Mr. Chung Chi Shing has no shareholding interest in the Company. Only Mr. Yu and Mr. Chung Chi Shing are the directors of the Vendor.

As confirmed by the Vendor, other than the business relationship as the beneficial owners of the Vendor, Mr. Yu and Ms. Kau do not have any other relationship. Mr. Yu and Ms. Kau are independent of and not connected with (as defined in the Listing Rules) each other.

Mr. Yu is a connected person of the Company by virtue of him being a substantial Shareholder by holding approximately 10.11% of the issued share capital of the Company as at the Latest Practicable Date. The Vendor is deemed to be a connected person of the Company. Mr. Chung Chi Shing is an Independent Third Party.

Purchaser: Growth Gain Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company.

Subject to be acquired

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share, being the entire issued share capital of Lucky Dragon and the Indebtedness free from all encumbrances together with all rights attached thereto and all dividends and distributions declared, paid or made in respect thereof after the date of the Acquisition Agreement.

Consideration and payment terms

The total Consideration of HK$840 million is comprised of (i) HK$40 million (not subject to any adjustment) and (ii) HK$800 million in various means of payment (subject to Adjustment A, B and/or C).

The amount of the consideration for the Indebtedness will equal to the amount of the outstanding indebtedness of Lucky Dragon owed to the Vendor as at the date of the Completion. The amount of the consideration for the Sale Share will equal to the total Consideration less the amount of Indebtedness as at the date of the Completion. The amount of Indebtedness as at the Latest Practicable Date is approximately HK$49.5 million.

The Consideration shall be settled in the following manner:

(a) as to HK$3 million payable by way of cashier orders upon the signing of the Acquisition Agreement;

(b) as to HK$837 million (subject to Adjustment A, B and/or C) payable on Completion as follows:

    (i) the sum of HK$157 million shall be payable by way of cashier orders;

    (ii) the balance of HK$680 million, minus such amounts as may be deducted according to Adjustment A, B and/or C, shall be payable as follows:

        (a) HK$420 million shall be satisfied by the allotment and issue of Consideration Shares at an issue price of HK$0.70 per Consideration Share; and

        (b) HK$260 million shall be satisfied by the issue of Convertible Notes with a conversion price of HK$0.70 per Conversion Share.

The cash portion of the Consideration will be financed by internal financial resources of the Group, available banking facilities and/or raising of capital from the equity market. The Company has not yet reached a decision on the form or mix of such financing activities and the Company has not entered into any agreement to raise capital from the equity or debt market.

Adjustment A

- If the reserve of the Xi Meng Coal Mine, as assessed by the Mining Expert, is less than 400 million tons, the Consideration shall be adjusted by deducting the sum of HK$2.0 per ton of the shortfall according to the report compiled by the Mining Expert. Such amount shall be deducted (i) firstly from the value of the Convertible Notes and (ii) secondly, if such amount exceeds the principal amount of the Convertible Notes, from the value of the Consideration Shares; and

- If the reserve of the Xi Meng Coal Mine, as assessed by the Mining Expert, is more than 400 million tons, the Consideration shall be adjusted by adding the sum of HK$0.1 per ton of increment according to the report compiled by the Mining Expert on the cash portion.

Adjustment B

Pursuant to the Lucky Dragon Agreements dated 19 July 2007, Lucky Dragon has agreed to acquire the entire interest in Heng Yuan from certain Independent Third Parties and completion shall take place upon Lucky Dragon has settled all the consideration payable in relation to the acquisition. As at the Latest Practicable Date, the consideration payable by Lucky Dragon to such pre-existing shareholders of Heng Yuan was only partially settled.

If any consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan (the calculation method of the consideration is set out in the sub-section headed "Lucky Dragon" under the section headed "INFORMATION ON SUBJECT ASSETS" in this circular) and/or any premium for exploration right ("探礦權款價") payable by Heng Yuan to the relevant authorities of land and resources ("相關國土資源管理部門") and any exploration costs ("勘探費") payable by Heng Yuan to the PRC exploration company remains outstanding immediately before the Completion, the Purchaser shall:

(a) deduct such outstanding amounts from the cash consideration of HK$157 million and make direct payment of the same to the pre-existing shareholders of Heng Yuan, the relevant authorities of land and resources and/or the PRC exploration company; and

(b) pay the remaining balance to the Vendor by way of cashier orders.

In case that the cash consideration of HK$157 million is less than the amounts payable and remaining outstanding by Lucky Dragon, then such insufficient balance shall be deducted (i) firstly from the value of the Convertible Notes and (ii) secondly, if such amount exceeds the principal amount of the Convertible Notes, from the value of the Consideration Shares.

Adjustment C

Pursuant to the Acquisition Agreement, the Vendor shall deliver to the Purchaser the Completion Accounts within two months after the Completion.

If the total liabilities as shown in the Completion Accounts is greater than the total liabilities as shown in the Management Accounts, then the Consideration shall be adjusted by deducting an amount equal to the difference between the total liabilities as shown in the Completion Accounts and the total liabilities as shown in the Management Accounts on a dollar to dollar basis and the Vendor shall set off such amount against the payment obligations of the Company under the Convertible Notes. Should such amount to be deducted exceed the principal amount of the Convertible Notes which remains outstanding at the time, the Vendor shall pay any shortfall to the Purchaser by cash within two business days after the production of the Completion Accounts. For the purpose of this Adjustment C, the amount of deduction shall not take into consideration the amount of (i) Indebtedness, (ii) unpaid consideration payable to the pre-existing shareholders of Heng Yuan, (iii) any exploration costs payable to the PRC exploration company and (iv) any premium for exploration rights payable to the relevant authorities of land and resources, as the Indebtedness (i.e. item (i) above) will be assigned by the Vendor to the Purchaser pursuant to the Acquisition Agreement and Adjustment B has already provided for the deduction of the amount of unpaid consideration payable to the pre-existing shareholders of Heng Yuan (i.e. item (ii) above), any exploration costs payable to the PRC exploration company (i.e. item (iii) above) and any premium for exploration rights payable to the relevant authorities of land and resources (i.e. item (iv) above).

Adjustments to Consideration based on the latest information as at the Latest Practicable Date

Given that the assessment of the reserve of the Xi Meng Coal Mine has been completed by the Mining Expert (details are set out in the relevant technical report in Appendix VIII to this circular) and the general exploration stage exploration report of the Xi Meng Coal Mine has been completed by the PRC Exploration Company as at the Latest Practicable Date, Adjustment A and B can be determined in certain extents as set out below. For illustrative purposes only, effects of Adjustment C is also set out below.

In respect of Adjustment A, given that the estimated coal reserve of the Xi Meng Coal Mine as assessed by the Mining Expert is 434,763,253 tons, being more than the reference reserve of 400 million tons under Adjustment A, the cash portion of the Consideration shall increase by HK$3,476,325.30, equivalent to the sum of HK$0.1 per ton of increment.

In respect of Adjustment B, pursuant to the general exploration stage exploration report issued by the PRC Exploration Company in October 2007, Xi Meng Coal Mine has a coal reserve of approximately 432.53 million tons. Based on the calculation method of the consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuen set out in the sub-section headed “Lucky Dragon” under the section headed “INFORMATION ON SUBJECT ASSETS” in this circular, the total purchase consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan amounted to approximately RMB105.3 million. As at the Latest Practicable Date, Lucky Dragon has made payment of approximately RMB35.0 million to the pre-existing shareholders of Heng Yuan and has paid certain costs of approximately RMB6.0 million on behalf of the pre-existing shareholders of Heng Yuan (such amount shall be deducted from the consideration payable by Lucky Dragon in accordance with the terms of the Lucky Dragon Agreements). Accordingly, Lucky Dragon had outstanding capital commitment of approximately RMB64.3 million payable to the pre-existing shareholders of Heng Yuan as at the Latest Practicable Date. Furthermore, Heng Yuan has already settled all the outstanding exploration premium in the amount of approximately RMB1.7 million and part of the exploration costs of approximately RMB7.0 million to the PRC exploration company. As at the Latest Practicable Date, the outstanding exploration costs payable by Heng Yuan to the PRC exploration company amounted to approximately RMB2.3 million. The directors of Heng Yuan intend to settle such outstanding amount before the Completion.

In respect of Adjustment C, the relevant adjustment cannot be determined until the Completion. However, for illustrative purposes only, according to Note ### of Note (a) to the unaudited pro forma financial information of the Enlarged Group (for the acquisition of Lucky Dragon) set out in Appendix IV to this circular, the difference between the total liabilities as shown in the Management Accounts and the total liabilities of the Lucky Dragon Group as at 31 July 2007 (being the date on which the Acquisition is assumed to have been completed) is HK$3,090,000. If this is the case as at the date of the Completion, an amount of HK$3,090,000 will be set off on a dollar to dollar basis against the payment obligations of the Company under Convertible Notes.

Basis of Consideration

The Consideration was determined after arm’s length negotiation with reference to, among other things, (i) the net asset value of Lucky Dragon and Heng Yuan; (ii) the preliminary estimated reserves of the Huanghuashan Coal Mine and the Xi Meng Coal Mine; (iii) the prospect of coal mining industry in the PRC; and (iv) the continuing tension for global energy demand. Taking the above factors into account, the Directors are of the view that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

In respect of Adjustment A, the reserve of 400 million tons set out in the Acquisition Agreement, which is only a reference, is agreed between the Purchaser and the Vendor to determine the Consideration after arm's length negotiation even though the preliminary estimation made by the PRC Exploration Company is only about 300 million tons after taking into account (i) the final coal reserve will be based on the assessment to be made by the Mining Expert and such result is not available as at the date of the Acquisition Agreement and (ii) the amount of the coal reserves in the Xi Meng Coal Mine as assessed by the PRC Exploration Company is a preliminary estimation only and it is expected that greater amount of coal reserves will be found as the exploration proceeds. After further consideration and after arm's length negotiation, the parties to the Acquisition Agreement have arrived at the acquisition cost of HK$2 per ton of coal (i.e. equivalent to a reduction of HK$2 per ton of shortfall from the reference reserve of 400 million tons) with reference to (i) the range of the acquisition costs of HK$4 and HK$12 per ton of coal of various coal mines paid by other listed issuer as announced in the first half of 2007; (ii) the prospect of the coal mining industry in the PRC; and (iii) the continual tension for global energy demand. The basis for arriving at the acquisition cost of HK$0.1 per ton of increment of reserve is determined by the parties with reference to the consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan (the calculation method of the consideration is set out in the sub-section headed “Lucky Dragon” under the section headed “INFORMATION ON SUBJECT ASSETS” in this circular). Based on the factors above, the Directors are of the view that the Consideration is fair and reasonable.

The Directors are aware of the considerable premium when comparing the Consideration with the original cost paid/payable by Lucky Dragon in relation to its acquisition of the entire equity interest in Heng Yuan. The Directors consider the amount of Consideration and the premium payable for the Acquisition is justifiable taking into account the following factors:

- the acquisition cost for every ton of coal payable to the Vendor is relatively less than the range of the acquisition cost of HK$4 and HK$12 per ton of coal of various coal mines paid by other listed issuer as announced in the first half of 2007;

- the at-pit market price of the coal of the Xi Meng Coal Mine of approximately RMB190 per ton as being estimated by the coal expert employed by the Group is significantly greater than the consideration of HK$2 per ton of coal payable by the Group;

- before the execution of the MOU, the Directors do not have any information or knowledge about Heng Yuan or its pre-existing shareholders and therefore it is impossible for the Company to directly acquire the equity interest of Heng Yuan from its pre-existing shareholders at a lower cost;

- the Vendor has refused to sell Lucky Dragon to the Purchaser and expressed its intention to seek other buyers for Lucky Dragon if the acquisition cost per ton of coal for the initial 400 million tons of coal of the Xi Meng Coal Mine is less than HK$2; and

- the Directors have not come across other opportunities to acquire other coal mines with significant amount of coal reserves (i.e. coal mines with amount of coal reserves similar or greater than the coal reserves of Heng Yuan) which can significantly build up the amount of aggregate coal reserves of the Group.

Taking into account the above, the Directors are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole.

Prior to the execution of the Acquisition Agreement, the Directors have made the following due diligence exercise for Heng Yuan:

- arranged the coal experts employed by the Group to make discussion with the PRC Exploration Company, to monitor their exploration works and review their exploration data;

- consulted the coal experts about the recent market coal price;

- arranged the PRC legal advisers to review the corporate and legal documents (including the exploration license of the Xi Meng Coal Mine and the mining license of the Huanghuashan Coal Mine); and

- studied recent industrial researches about the coal industry and examined recent coal industry related data published by various government authorities.

The basis in respect of the issue price of HK$0.70 of the Consideration Shares and the conversion price of HK$0.70 of the Convertible Notes were determined between the Purchaser and the Vendor after arm's length negotiations with reference to, among other things, the closing price of the Shares ranging from HK$0.65 to HK$1.00 during the six-month period immediately prior to the publication of the Unusual Movements Announcement. The Directors are of the opinion that the recent rally in the share price of the Company only commences after the publication of the Unusual Movements Announcement and consider the issue price of the Consideration Shares and the conversion price of the Convertible Notes to be reasonable after arm's length negotiations between the Purchaser and the Vendor. In view of the foregoing, the Directors are of the view that the issue price of the Consideration Shares and the conversion price of the Convertible Notes are fair and reasonable.

The issue price of HK$0.70 per Consideration Share and the conversion price of HK$0.70 per Conversion Share under the Convertible Notes represent:

(i) a discount of approximately 44.9% to the closing price of the Shares of HK$1.27 on the Last Trading Day;

(ii) a discount of approximately 48.1% to the 5-day average closing price of the Shares of approximately HK$1.35 in the last five consecutive trading days up to and including the Last Trading Date;

(iii) a discount of approximately 50.7% to the 10-day average closing price of the Shares of approximately HK$1.42 in the last ten consecutive trading days up to and including the Last Trading Date;

(iv) a discount of approximately 38.1% to the 30-day average closing price of the Shares of approximately HK$1.13 in the last thirty consecutive trading days up to and including the Last Trading Date;

(v) a discount of approximately 19.5% to the 90-day average closing price of the Shares of approximately HK$0.87 in the last ninety consecutive trading days up to and including the Last Trading Date;

(vi) a discount of approximately 7.9% to the 180-day average closing price of the Shares of approximately HK$0.76 in the last one hundred and eighty consecutive trading days up to and including the Last Trading Date; and

(vii) a discount of approximately 25.5% to the closing price of the Shares of HK$0.94 as at the Latest Practicable Date.

Assuming no adjustment has to be made to the Consideration, a total of 600,000,000 Consideration Shares will be issued upon Completion. The 600,000,000 Consideration Shares represents approximately 17.61% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 14.97% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares. The issue of the Consideration Shares is subject to the approval of the Independent Shareholders at the EGM.

Assuming no adjustment has to be made to the Consideration, a total of 371,428,571 Conversion Shares will be issued in the event that the conversion rights attaching to the Convertible Notes were fully exercised, the 371,428,571 Conversion Shares represent approximately 10.90% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 8.48% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares. The issue of the Convertible Notes and Conversion Shares are subject to the approval of the Independent Shareholders at the EGM.

The Consideration Shares and the Conversion Shares upon issue will rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares and the Conversion Shares. There will be no restriction on the subsequent sale of the Consideration Shares, Convertible Notes and Conversion Shares.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares and Conversion Shares.

The Convertible Notes

The terms of the Convertible Notes have been negotiated on arm's length basis and the principal terms of which are summarized below:

Principal amount

HK$260,000,000 (subject to Adjustment A, B and/or C)

Interest

No interest in the principal amount

Maturity

Second anniversary of the date of issue

Denomination

In multiple of HK$700,000

Form

Registered form only

Conversion Price

HK$0.70 per Conversion Share, which is subject to adjustment for sub-division or consolidation or reclassification of new Shares, issue of Shares by way of capitalization of profit or reserves; capital distribution, issue Shares for cash or issue consideration Shares at a price which is less than 80% of the market price, bonus issues, rights issues and other dilutive events and repurchase of any Shares by the Company. The adjustment to the Conversion Price is subject to review by independent financial adviser and/or auditor appointed by the Company.

The overriding principle as set out in the Stock Exchange's letter dated 5 September 2005 is that no adjustment to the exercise price or number of shares should be to the advantage of share option scheme participants without prior shareholders' approval. The adjustment that will be made to the conversion price if and only if in the event of, among other things, sub-division or consolidation of new Shares, bonus issues, rights issues and other dilutive events. Nevertheless, the Directors believe that the adjustment considerations set out in the Convertible Note in general accord with the overriding principle.

Conversion

The holder(s) of the Convertible Notes has/have the right to convert the whole or any part of the principal amount of the Convertible Notes into Conversion Shares from time to time following the issue of the Convertible Notes at the conversion price of HK$0.70 per Conversion Share at integral multiple of HK$700,000 save that if the outstanding principal amount of the relevant Convertible Note is less than HK$700,000, the whole (but not part only) of the outstanding principal amount of the relevant Convertible Note must be converted.

The conversion rights attaching to the Convertible Notes shall only be exercisable to the extent that such conversion will not result in (i) an insufficiency of public float of Shares as required by the Listing Rules or (ii) the holder of the Conversion Shares and parties acting in concert with it, in aggregate, holding more than 28% of the entire issued share capital of the Company.

The Company will not issue any Conversion Shares to the Vendor if upon the issue of such Conversion Shares will result in (i) an insufficiency of public float of Shares as required by the Listing Rules or (ii) shareholding of the Vendor and/or parties acting in concert with it holding more than 28% of the entire issued share capital of the Company. Given the above, the Acquisition will not result in a change in control (as defined in the Takeovers Code) of the Company.

Ranking

The Conversion Shares upon issue will rank pari passu in all respects among themselves and with all other Shares in issue on the date of such allotment and issue.

Redemption

The Convertible Notes are not redeemable by the Company up to the maturity date of the Convertible Notes. Any Convertible Notes which remains outstanding will be redeemed by the Company at 100% of the outstanding principal amount on the maturity date of the Convertible Notes.

Transferability

The Convertible Notes may be transferred or assigned to any third party with prior written consent of the Company and prior approval of the Stock Exchange, if so required. The Company shall give notice to the Stock Exchange for any transfer of the Convertible Notes and shall state whether any connected person of the Company is involved.

Voting

The holder(s) of the Convertible Notes will not be entitled to attend or vote at any meetings of the Company by reason only of being the holder(s) of the Convertible Notes.

Events of default

All Convertible Notes contain an event of default provision which provides that on the occurrence of certain events of default (e.g. repayment overdue, insolvency and liquidation) specified in the Convertible Notes and the holder(s) of the Convertible Notes holding not more than 51% in the principal amount of the Convertible Notes then outstanding giving a notice to the Company, each of the holders of the Convertible Notes shall be entitled to demand for immediate repayment of the principal amount outstanding under the relevant Convertible Notes.

Conditions of the Acquisition Agreement

Completion of the Acquisition Agreement is conditional upon:

(a) the Acquisition Agreement and the transactions contemplated thereunder having been approved by the Independent Shareholders at the EGM;

(b) the results of the due diligence on the Lucky Dragon and Heng Yuan are satisfactory to the Purchaser;

(c) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares;

(d) the Listing Committee of the Stock Exchange granting the listing of and the permission to deal in the Conversion Shares;

(e) the business type of Heng Yuan as registered with relevant authorities of land and resources ("相關國土資源管理部門") in connection with the mining license ("採礦權證") of the Huanghuashan Coal Mine be changed from that of a domestic enterprise ("內資企業") to that of a foreign enterprise ("外資企業") and completion of all related procedures, registrations and filings;

(f) the obtaining of the approval from the Department of Commerce of Inner Mongolia ("內蒙古自治區商務部") and the Administration of Industry and Commerce of Inner Mongolia ("內蒙古自治區工商行政管理局") by Heng Yuan to include coal mining ("煤炭開採") as the scope of business of Heng Yuan and completion of all related procedures, registrations and filings; and

(g) the Vendor's warranties remaining true and accurate in all material respects.

If any of the above conditions has not been fulfilled or if conditions (b), (e), (f) and (g) have not been waived by the Purchaser on or before 28 March 2008 (as extended from the original date of 31 December 2007 as stated in the Announcement pursuant to two supplemental agreements entered into between the parties) (or such later date as may be agreed between the Purchaser and the Vendor), the obligation of the parties under the Acquisition Agreement shall cease and the Acquisition Agreement shall terminate and cease to be of any further effect save in respect of claims arising out of any antecedent breach of the Acquisition Agreement. The Vendor shall refund the sum of HK$3 million paid by the Purchaser upon the signing of the Acquisition Agreement as mentioned in the sub-section headed "Consideration and payment terms" under the section headed "THE ACQUISITION AGREEMENT" in this circular within seven business days upon termination of the Acquisition Agreement.

As at the Latest Practicable Date, conditions (b), (e) and (g) have been fulfilled.

Completion

Completion shall take place within ten business days after the Acquisition Agreement becoming unconditional. Thereafter, Lucky Dragon will cease to be a wholly-owned subsidiary of the Vendor and become a wholly-owned subsidiary of the Purchaser.

UNDERTAKING BY THE VENDOR

The Vendor has undertaken to the Purchaser:

a) to procure its beneficial owners and parties acting in concert with them shall not, in aggregate, hold more than 28% of the entire issued share capital of the Company as long as the Vendor is a holder of the Convertible Notes; and

b) to retain for a period of one year from the Completion, the unencumbered beneficial ownership of (i) the Convertible Notes; or (ii) the Conversion Shares received from the conversion of such Convertible Notes; or (iii) the net proceeds from the disposal of such Conversion Shares, with aggregate value of not less than HK$70 million. If the aggregate value is equivalent to less than HK$70 million, the Vendor shall cover such shortfall within two business days by depositing additional cash on a dollar for dollar basis. For security purpose, the relevant (i) Convertible Notes; or (ii) Conversion Shares received from the conversion of such Convertible Notes; or (iii) net proceeds from the disposal of such Conversion Shares, shall be deposited with an escrow agent to be mutually agreed between the Vendor and the Purchaser.

INFORMATION ON SUBJECT ASSETS

Lucky Dragon

Lucky Dragon is a company incorporated in the British Virgin Islands on 30 April 2007 with limited liability and holds the entire equity interest in Heng Yuan. Lucky Dragon entered into the Lucky Dragon Agreements on 19 July 2007 to acquire the entire equity interest in Heng Yuan from certain Independent Third Parties. The certificate of approval and the business license for such acquisition were issued by the relevant government authorities on 27 July 2007 and 13 August 2007, respectively. In accordance with the PRC legal opinion, the acquisition of Heng Yuan by Lucky Dragon will be completed upon Lucky Dragon has settled all the consideration payable in relation to such acquisition. As confirmed by the Vendor, save for Mr. Yu's shareholding interests of 22.5% in the Vendor and approximately 10.11% in the Company and Ms. Kau's shareholding interests of 22.5% in the Vendor and approximately 3.72% in the Company, the pre-existing shareholders of Heng Yuan, the Vendor and its ultimate shareholders and the substantial shareholders of the Company and their associates/ultimate shareholders are independent of and not connected with each other. The consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan was only partially settled as at the Latest Practicable Date. Pursuant to the terms of the Lucky Dragon Agreement, Lucky Dragon shall settle the outstanding considerations to the pre-existing shareholders of Heng Yuan as follows:

A) a fixed consideration of RMB32 million not subject to any adjustment; and

B) an adjustable consideration based on the amount of coal reserves as assessed by an independent PRC exploration company at the general exploration stage on the Xi Meng Coal Mine will be added in the event that:

   (i) the amount of coal reserves of the Xi Meng Coal Mine is less than 200 million tons, Lucky Dragon shall pay RMB0.16 per ton of total coal reserves;

   (ii) the amount of coal reserves of the Xi Meng Coal Mine is more than 200 million tons but less than 300 million tons, Lucky Dragon shall pay RMB0.2 per ton of total coal reserves; and

   (iii) the amount of coal reserves of the Xi Meng Coal Mine is more than 300 million tons, Lucky Dragon shall pay RMB60 million (which is equivalent to RMB0.2 per ton of coal for the initial 300 million tons of coal reserves) plus RMB0.1 per ton of additional coal reserves in excess of the initial 300 million tons.

Pursuant to the general exploration stage exploration report of the Xi Meng Coal Mine issued by the PRC Exploration Company in October 2007, Xi Meng Coal Mine has a coal reserve of approximately 432.53 million tons and accordingly the total purchase consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan amounted to approximately RMB105.3 million. As at the Latest Practicable Date, Lucky Dragon has made payment of approximately RMB35.0 million to the pre-existing shareholders of Heng Yuan and has paid certain costs of approximately RMB6.0 million on behalf of the pre-existing shareholders of Heng Yuan (such amount shall be deducted from the consideration payable by Lucky Dragon in accordance with the terms of the Lucky Dragon Agreements). Accordingly, Lucky Dragon had outstanding capital commitment of approximately RMB64.3 million payable to the pre-existing shareholders of Heng Yuan as at the Latest Practicable Date.

As at the Latest Practicable Date, Lucky Dragon is indebted to the Vendor in the sum of approximately HK$49.5 million and is wholly and beneficially owned by the Vendor. The amount of Indebtedness has increased by approximately HK$28.7 million from the date of the Announcement to approximately HK$49.5 million as the Vendor has lent additional amount to Lucky Dragon mainly for the payment of the consideration payable to the pre-existing shareholders of Heng Yuan. The Directors are of the view that the net liability position of Lucky Dragon will not have any financial effect on the Enlarged Group upon Completion as all amounts due from Lucky Dragon will be assigned to the Purchaser. Accordingly, Lucky Dragon will not be required to repay such amounts to the Vendor. Save for its equity interests in Heng Yuan and a bank balance of approximately HK$8.0 million, Lucky Dragon has no other investment or major asset as at the Latest Practicable Date. Before the execution of the MOU, the management of the Company does not have any information or knowledge about Heng Yuan or its pre-existing shareholders.

The following table sets out a summary of the audited financial figures of Lucky Dragon prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the period from 30 April 2007 (date of incorporation) to 31 July 2007 Audited *(HK$'000)*
Turnover	–
Loss before tax	30
Loss after tax	30

	As at 31 July 2007 Audited *(HK$'000)*
Deficiency in assets	30

Heng Yuan

Heng Yuan is a wholly-owned foreign enterprise established in the PRC on 11 January 2005. It is principally engaged in the sale of mine products other than noble metal and iron ore but has become dormant since its establishment. Heng Yuan owns (i) the mining rights and other relevant operation facilities and properties in relation to the Huanghuashan Coal Mine situated in Tongliao City of Inner Mongolia and (ii) the exploration rights of the Xi Meng Coal Mine situated in Xilinguolemeng of Inner Mongolia. Mining rights allow the owner of the mining license to exploit and sell the coal resources, while exploration rights allow the owner of the exploration license to perform exploration works on the coal mine. The operating period of the mining rights in the Huanghuashan Coal Mine is from November 2007 to November 2010. The operating period of the exploration rights in the Xi Meng Coal Mine is from July 2005 to July 2008. Based on the PRC legal opinion, applications for extensions can be made within 30 days prior to the expiration of the mining rights and the exploration rights. The mining rights in the Huanghuashan Coal Mine is subject to an extension of 5 years while the exploration rights in the Xi Meng Coal Mine is subject to an extension of 2 years. According to the PRC legal opinion, Heng Yuan does not have any legal obstacles for the renewal of the mining rights and the exploration rights.

Heng Yuan is currently the holder of the mining license of the Huanghuashan Coal Mine. Heng Yuan is also the holder of the exploration license of the Xi Meng Coal Mine while its exploration works are being performed. Heng Yuan had made application with relevant authorities of land and resources ("相關國土資源管理部門") to change the business type in association with its mining license ("採礦權證") of the Huanghuashan Coal Mine from a domestic enterprise ("內資企業") to a foreign enterprise ("外資企業") and such change was completed on 5 November 2007. Save for the interests in the Huanghuashan Coal Mine and the Xi Meng Coal Mine, Heng Yuan has no other investments or major assets as at the Latest Practicable Date.

The following table sets out a summary of the audited financial figures of Heng Yuan prepared in accordance with the Hong Kong Financial Reporting Standards:

	For the seven months ended 31 July 2007 Audited *(HK$'000)*	For the year ended 31 December 2006 Audited *(HK$'000)*	For the period from 11 January 2005 (date of registration) to 31 December 2005 Audited *(HK$'000)*
Turnover	–	–	–
Profit/(Loss) before tax	22,081	(361)	(740)
Profit/(Loss) after tax	22,081	(361)	(740)
	As at 31 July 2007 Audited *(HK$'000)*	**As at 31 December 2006 Audited** *(HK$'000)*	**As at 31 December 2005 Audited** *(HK$'000)*
Net assets/(liabilities)	21,495	(586)	(225)

Huanghuashan Coal Mine

The Huanghuashan Coal Mine is located in Tongliao City of Inner Mongolia. Heng Yuan owns the mining rights and other relevant operating facilities and properties in relation to the mining rights of the Huanghuashan Coal Mine. Nevertheless, the exploitation work of Huanghuashan Coal Mine is still subject to the obtaining of Coal Production Safety Permit ("煤炭安全生產許可證") and Coal Production Permit ("煤炭生產許可證") from the relevant authorities of land and resources. After Heng Yuan has obtained the Coal Production Safety Permit and Coal Production Permit, Heng Yuan can then make application to the government authorities for the inclusion of coal mining ("煤炭生產") as its principal activities in its business license and to commence coal mining activities. The Coal Production Safety Permit, Coal Production Permit and the approval for the inclusion of coal mining as its principal activities are expected to be obtained before 29 February 2008. The PRC legal adviser of the Company does not foresee any obstacles for obtaining the above permissions and approvals.

As at the time of the Announcement, pursuant to a resource/reserve assessment report ("資源/儲量核實報告") compiled by Team 472 of the Inner Mongolia Bureau of Coal Field Geology ("內蒙古煤田地質局472勘探隊") in 2004, Huanghuashan Coal Mine had an estimated coal reserves of approximately 5.42 million tons. The at-pit market price of the coal expected to be extracted from the Huanghuashan Coal Mine was approximately RMB250 per ton as estimated by a coal expert of the Group based on the conditions of the present coal market. The Directors are of the opinion that the coal price of the Huanghuashan Coal Mine as estimated by the coal expert of the Group is fair and reasonable as the coal expert has over 41 years of experience in the PRC coal industry. Prior to joining the Group in July 2007, the coal expert has worked with the Handan Coal Bureau ("邯鄲煤炭局"), the Handan Mining Bureau ("邯鄲礦務局") and the Hebei Research Institute of Coal Science ("河北省煤炭科學研究所"). In addition, the coal expert has also worked as the panel head of the Panel of Energy Enterprises in Guangdong and Zhejiang Provinces ("廣東省及浙江省能源企業專家組組長"). Up to the stage of this circular, the Group has appointed the Mining Expert to compile a technical report for the Huanghuashan Coal Mine and such report is included in Appendix VII to this circular. According to the technical report, the Huanghuashan Coal Mine has an estimated coal reserves of approximately 7.85 million tons and the current at-pit market price of the coal expected to be extracted from the Huanghuashan Coal Mine is approximately RMB250-260 per ton (pre-washing) and RMB550-650 per ton (post-washing).

Xi Meng Coal Mine

The Xi Meng Coal Mine is located in Xilinguolemeng of Inner Mongolia. Heng Yuan is the legal owner of the exploration rights of the Xi Meng Coal Mine. Heng Yuan has appointed the PRC Exploration Company to perform exploration works for the Xi Meng Coal Mine and the general exploration stage was completed in October 2007. Heng Yuan currently holds all the necessary license for the exploration of the Xi Meng Coal Mine. The Directors expect that application for the mining rights of the Xi Meng Coal Mine will be made in the third quarter of 2008. The PRC legal adviser of the Company expects that there will be no legal obstacles for obtaining the mining rights.

As at the time of the Announcement, based on the progressive results of the exploration works performed by the PRC Exploration Company and pursuant to the Specifications for Coal Peat Exploration ("煤、泥炭地質勘探規範"), the amount of the coal reserves in the Xi Meng Coal Mine as assessed by the PRC Exploration Company would be more than 300 million tons. The at-pit market price of the coal expected to be extracted from the Xi Meng Coal Mine was approximately RMB190 per ton as estimated by a coal expert of the Group based on the coal samples extracted from the Xi Meng Coal Mine and the conditions of the present coal market. The Directors are of the opinion that the coal price of the Xi Meng Coal Mine as estimated by the coal expert of the Group is fair and reasonable as the coal expert has over 41 years of experience in the PRC coal industry. Prior to joining the Group in July 2007, the coal expert has worked with the Handan Coal Bureau ("邯鄲煤炭局"), the Handan Mining Bureau ("邯鄲礦務局") and the Hebei Research Institute of Coal Science ("河北省煤炭科學研究所"). In addition, the coal expert has also worked as the panel head of the Panel of Energy Enterprises in Guangdong and Zhejiang Provinces ("廣東省及浙江省能源企業專家組組長"). Up to the stage of this circular, the Group has appointed the Mining Expert to compile a technical report for the Xi Meng Coal Mine and such report is included in Appendix VIII to this circular. According to the technical report, the Xi Meng Coal Mine has an estimated coal reserves of approximately 434.76 million tons and the current pricing for the coal expected to be extracted from the Xi Meng Coal Mine is approximately RMB190 per ton in Inner Mongolia.

Additional information on the Xi Meng Coal Mine and the Huanghuashan Coal Mine

It is estimated that the funding requirement of the Huanghuashan Coal Mine for the next 24 months will be approximately RMB72 million to expand the production capacity of the Huanghuashan Coal Mine to 600,000 tons per annum and to construct coal-washing facilities for the Huanghuashan Coal Mine. It is expected that about 3 months subsequent to Completion will be required to exploit its proven reserves and commence recoveries on a commercial scale.

It is estimated that the funding requirement of the Xi Meng Coal Mine for the next 24 months will be approximately RMB520 million to construct an underground coal mine with annual production capacity of 3 million tons. It is expected that about 24 months subsequent to Completion will be required to exploit its proven reserves and commence recoveries on a commercial scale.

The Directors estimate that, upon Completion, the Xi Meng Coal Mine will require:

(i) three months for performance of the detailed exploration stage and approval of such exploration report by the relevant authorities of land and resources;

(ii) three months for the compilation of a feasibility study and coal mine design report;

(iii) three months for the application of the mining license;

(iv) twelve months for the construction of the coal mine; and

(v) three months for obtaining the Coal Production Safety Permit (煤炭安全生產許可證) and Coal Production Permit (煤炭生產許可證).

Accordingly, a total of 24 months will be required for Xi Meng Coal Mine to commence production subsequent to Completion.

The Directors plan to finance the future funding requirement by (i) issue of new shares, (ii) issue of convertible bonds, (iii) bank and other borrowings or (iv) a combination of the above.

In addition, it is estimated that the unit production cash cost of the Huanghuashan Coal Mine will be approximately RMB77 per ton of coal (include the cost of coal washing) and the unit production cash cost of the Xi Meng Coal Mine will be approximately RMB63 per ton of coal. The estimated unit production cash cost of the Huanghuashan Coal Mine is larger than that of the Xi Meng Coal Mine as additional cost of approximately RMB10 per ton will be incurred by the Huanghuashan Coal Mine for the coal washing process. No coal washing will be required for the Xi Meng Coal Mine as the coal type of the Xi Meng Coal Mine is thermal coal while the coal type of the Huanghuashan Coal Mine is semi-anthracite coal.

The future funding requirements and unit production cash costs of the coal mines are estimated by two coal experts of the Group, Coal Expert A and Coal Expert B, based on the present market conditions. The Directors are of the opinion that such funding requirements and unit production cash costs as estimated by the two coal experts are fair and reasonable as the coal experts have in-depth experience and knowledge for the coal mining industry.

Coal Expert A is a graduate of China College of Mining and Technology (中國礦業學院) and has over 25 years of experience in coal mine design and operation. He worked as the Chief Engineer of the Inner Mongolia Huolinhe Coal Group ("內蒙古霍林河煤業集團") prior to joining the Group. Inner Mongolia Huolinhe Coal Group is one of the largest coal enterprise in Inner Mongolia with registered capital of RMB1.9 billion and annual sales of approximately RMB10 billion.

Coal Expert B is a graduate of Liaoning Technical University (遼寧工程技術大學) and has over 25 years of experience in the coal industry. Prior to joining the Group, he had worked as the Senior Geological Engineer of the China General Bureau of Coalfield Geology (中國煤田地質總局) and the Chief Engineer of the 155 Exploration Team of the Northeastern Bureau of Coalfield Geology (東北煤田地質局). In addition, Coal Expert B has been awarded by the Land Department of the Liaoning Province (遼寧省土地管理局) and the Ministry of Land of the PRC (國家土地管理局) in 1995 for his outstanding achievement and contribution in the coal industry.

RISKS ASSOCIATED WITH THE ACQUISITION

Set out below are some of the risks associated with the Acquisition:

- the renewal of the mining rights of the Huanghuashan Coal Mine which will expire in November 2010 is subject to the approval of the relevant government authorities. Shall the Acquisition be approved and completed while Heng Yuan cannot obtain such renewal of the mining rights of the Huanghuashan Coal Mine, Heng Yuan, a then indirect wholly-owned subsidiary of the Company, will lose the mining rights of the Huanghuashan Coal Mine;

- the renewal of the exploration rights of the Xi Meng Coal Mine which will expire in July 2008 is subject to the approval of the relevant government authorities. Shall the Acquisition be approved and completed while Heng Yuan cannot obtain such renewal of the exploration rights of the Xi Meng Coal Mine, Heng Yuan, a then indirect wholly-owned subsidiary of the Company, will lose the exploration rights of the Xi Meng Coal Mine;

- the mining activities in the Xi Meng Coal Mine is subject to the obtaining of the mining rights of the Xi Meng Coal Mine from the relevant government authorities. In the event that Heng Yuan fails to obtain the mining rights of the Xi Meng Coal Mine, Heng Yuan will have no right to conduct mining activities in the Xi Meng Coal Mine; and

- the gain or revenue generated from the Xi Meng Coal Mine and the Huanghuashan Coal Mine are subject to the cyclical nature of the domestic and international coal market which are affected by numerous factors beyond the Company's control, for example, general economic conditions in the PRC and elsewhere in the world, weather conditions, fluctuations in the development and growth of industries with high demand of coal. The selling price of coal and the profit margin will depend on market supply and demand forces in the domestic and international markets.

REASONS FOR THE ACQUISITION

The Company and its subsidiaries are principally engaged in the design, manufacture and sale of toys and decorative gift items, and exploration and exploitation of coal mines. In order to diversify the businesses of the Group, the Company has been actively exploring new investment opportunities with profitable prospects. In view of the worldwide increasing demand for natural and energy resources, the Company has commenced to diversify its business portfolio in the first half of 2007 by the acquisition of the Guerbanhada Coal Mine located in Inner Mongolia, the PRC through the acquisition of the equity interests in Mingrunfeng (details of which are set out in the announcements dated 26 September 2006, 1 February 2007 and 3 April 2007 and the circular dated 30 March 2007 issued by the Company). By tapping into the business expansion opportunities to be enlightened by the Acquisition, the Directors consider that the Acquisition will further create strategic values for the Company by increasing the coal reserves and broadening the geological strength of its coal business and therefore will be in the interests of the Company and the Shareholders as a whole. There is no term in the Acquisition Agreement which allows for the appointment of any Directors by the Vendor and the Company currently has no plan to change the composition of the Board.

The Directors are positive about the prospect of the coal mining industry in the PRC. According to the industrial research published on 31 July 2007 made by China International Capital Corporation Limited ("中國國際金融有限公司"), coal accounted for approximately 70% of PRC's energy consumption. According to Quamnet, in 2005, the power sector accounted for approximately 52% of the coal consumption in the PRC, followed by steel (14%) and construction (mainly cement; 9%). Recent PRC industrial data published by the National Development and Reform Commission of the PRC ("國家發展和改革委員會") also suggested for strong demand for coal by various industrial sectors. For instance, for the first seven months of 2007, PRC electricity output has increased by approximately 16.5% as compared with the same period of 2006 and while the electricity output for coal-fired electricity plants for the first seven months of 2007 has increased by approximately 18.6% as compared with the same period for 2006. According to State Power Information Network of the PRC ("國家電力信息網"), coal-fired electricity accounted for approximately 80% of the total electricity generation in the PRC. According to Quamnet, crude steel and cement outputs in the PRC rose by approximately 23% and 12%, respectively, in the first four months of 2007 as compared with the same period in 2006. China National Capital Corporation Limited has estimated that coal demand in the PRC will increase from approximately 2.38 billion tons in 2006 to approximately 3.01 billion tons in 2010. Statistics from the General Administration of Customs of the PRC ("中國海關總署") also revealed that PRC has become a net coal importer in 2007. In view of the continual economic growth in the PRC, the Directors are of the opinion that demand for coal from the electricity and other industries will continue to be robust in the foreseeable future and the tension for global energy demand will continue.

Given that the Consideration was determined with reference to, among other things, (i) the net asset value of Lucky Dragon and Heng Yuan; (ii) the preliminary estimated reserves of the Huanghuashan Coal Mine and the Xi Meng Coal Mine; (iii) the prospect of coal mining industry in the PRC and (iv) the continuing tension for global energy demand after arm's length negotiation, the Directors consider that the terms of the Acquisition Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Pursuant to the technical report on the Huanghuashan Coal Mine compiled by the Mining Expert in Appendix VII to this circular, the Huanghuashan Coal Mine has an estimated coal reserves of approximately 7.85 million tons in accordance with the JORC Code. The Mining Expert identified a number of environmental issues related to the development of the Huanghuashan Coal Mine not following all the conditions for construction as stated in the governmental approvals. The Mining Expert advises that the most significant potential environmental management liabilities that relate to the operation and development of the Huanghuashan Coal Mine are:

- surface water management and discharges (i.e. stormwater runoff & diversions);
- groundwater management and discharges (i.e. mine dewatering not treated or collected);
- rehabilitation of waste rock and coal stockpiles and other disturbed areas;
- storage and handling of hazardous materials;
- waste generation and management (industrial and domestic wastes);
- no characterization of process waste materials or gangue;
- no monitoring of waste water discharges;

- potential contaminated sites;
- lack of a structured closure planning process; and
- lack of erosion control measures.

Moreover, although the Mining Expert did not conduct a full occupational health and safety inspection at the Huanguashan mine site, they are of the opinion that sub-standard safety practices compared to other international operations existed at the mine site. Their major concerns include:

- no site inductions at the mine site were conducted for Mining Expert personnel at the underground mine;
- usage of personal protective equipment is comparatively sub-standard (e.g. safety glasses, ear protection, dust masks or safety boots are not worn);
- no sign-in or sign-out was requested from Mining Expert personnel;
- no self-rescuers provided;
- positive lock-out procedures were not applied; and
- no hazard signs posing possible risks to employees and visitors were displayed at the mine.

In addition to the aforementioned reasons for the Acquisition, notwithstanding such environmental issues and occupational health and safety issues raised by the Mining Expert and further capital expenditure in the amount of approximately RMB72 million will be required for the development of the Huanghuashan Coal Mine, the Directors are of the view that the acquisition of the mine is fair and reasonable and are in the interests of the Company and Shareholders as a whole because of the following reasons:

(i) The obtaining of the approval from the Department of Commerce of Inner Mongolia ("內蒙古自治區商務部") and the Administration of Industry and Commerce of Inner Mongolia ("內蒙古自治區工商行政管理局") by Heng Yuan to include coal mining ("煤炭開採") as the scope of business of Heng Yuan and completion of all related procedures, registrations and filings is a condition precedent of the Acquisition Agreement. As per the PRC legal opinion, Heng Yuan must obtain the Coal Production Safety Permit (煤炭安全生產許可證) and Coal Production Permit (煤炭生產許可證) before Heng Yuan can include coal mining ("煤炭開採") as its scope of business. Shall Heng Yuan fail to obtain the Coal Production Safety Permit (煤炭安全生產許可證) and Coal Production Permit (煤炭生產許可證), the Acquisition will not be proceeded to Completion. Accordingly, the Directors are of the opinion that the interest of the Company and Shareholders as a whole will be protected from any potential loss resulting from the failure of Heng Yuan to obtain the Coal Production Safety Permit (煤炭安全生產許可證) and Coal Production Permit (煤炭生產許可證) as a result of the environmental and occupational health and safety issues listed by the Mining Expert.

(ii) In the course of the application of the Coal Production Safety Permit (煤炭安全生產許可證), consent from the government authorities in relation to the coal industry and environmental protection have to be obtained. As per the PRC legal opinion, Heng Yuan has already obtained the written consent from the Tongliao Bureau of Environmental

Protection (通遼市環境保護局) which is responsible for the environmental issues. The Inner Mongolia Bureau of Coal Mine Safety (內蒙古煤礦安全監察局) which is responsible for the occupational health and safety issues has also approved the safety assessment on the Huanghuashan Coal Mine. Accordingly, the Directors believe that such environmental and occupational health and safety issues listed by the Mining Expert will not affect the application and renewal of the licenses/permits in relation to exploitation of the Huanghuashan Coal Mine.

(iii) The Huanghuashan Coal Mine still has not commenced any commercial production and therefore the current environmental issues and occupational health and safety issues raised by the Mining Expert do not have an immediate impact on the Huanghuashan Coal Mine. The Directors will ensure that the future operations of the Huanghuashan Coal Mine will comply with all applicable environmental and occupational health and safety requirements after the Completion.

(iv) As per the technical report of the Huanghuashan Coal Mine compiled by the Mining Expert in Appendix VII to this circular, the current at-pit market price is approximately RMB250-260 per ton for the raw coal and approximately RMB550-650 per ton for the washed coal while the current production capacity of the Huanghuashan Coal Mine is 300,000 tons per annum. Upon Completion, the Directors plan to invest approximately RMB72 million to expand the production capacity of the Huanghuashan Coal Mine to 600,000 tons per annum and to construct coal-washing facilities for the Huanghuashan Coal Mine. The Directors are of the opinion that the such capital investment will greatly enhance the potential value of the Huanghuashan Coal Mine and accordingly, the acquisition of the Huanghuashan Coal Mine will greatly enhance the value and future profitability of the Group.

Pursuant to the technical report on the Xi Meng Coal Mine compiled by the Mining Expert in Appendix VIII to this circular, the Xi Meng Coal Mine has an estimated coal reserves of approximately 434.76 million tons. The Mining Expert is of the opinion that such resource estimation is in compliant with the Chinese resource reporting standard only but cannot be reportable under the JORC Code and a number of issues in terms of collection of borehole data has been raised by the Mining Expert.

In addition to the aforementioned reasons for the Acquisition, notwithstanding such technical issues raised by the Mining Expert, the Directors are of the view that the acquisition of the Xi Meng Coal Mine is fair and reasonable and is in the interest of the Company and Shareholders as a whole because the conclusion of such technical report recommends that, given the excellent potential for the Xi Meng Coal Mine to become an economic underground coal mine, further drilling should be conducted in order to provide sufficient detail for a final feasibility study for the project. Accordingly, the Directors plan to invest approximately RMB15 million to make further exploration of the coal mine and to perform a final feasibility study for the Xi Meng Coal Mine. As the Xi Meng Coal Mine is expected to have abundant coal resources of over 400 million tons and as the Directors are of the opinion that the demand of coal from the electricity and other industries will continue to be robust in the PRC, the Directors are of the opinion that the acquisition of the Xi Meng Coal Mine will greatly enhance the value and future profitability of the Group.

SHAREHOLDING STRUCTURE OF THE COMPANY BEFORE AND AFTER THE ACQUISITION

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and the effects of the Acquisition assuming that no adjustment has to be made to the Consideration:

	As at the Latest Practicable Date		**Immediately after Completion and issue of Consideration Shares but assuming no Convertible Notes are exercised**		**Immediately after Completion and issue of Consideration Shares and assuming the Convertible Notes are fully exercised** *(Note 3)*	
	Shares	*Approximate %*	*Shares*	*Approximate %*	*Shares*	*Approximate %*
Legend Win Profits Limited *(Note 1)*	1,567,500,000	46.01%	1,567,500,000	39.12%	1,567,500,000	35.80%
Mr. Yu *(Note 2)*	344,500,000	10.11%	344,500,000	8.60%	344,500,000	7.87%
Ms. Kau *(Note 2)*	126,870,000	3.72%	126,870,000	3.17%	126,870,000	2.90%
The Vendor *(Note 2)*	0	0.00%	600,000,000	14.97%	971,428,571	22.18%
Other public Shareholders	1,368,419,800	40.16%	1,368,419,800	34.14%	1,368,419,800	31.25%
Total	3,407,289,800	100.00%	4,007,289,800	100.00%	4,378,718,371	100.00%

Notes:

1) Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa, all being executive Directors, and Hui's K.K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26% respectively. Hui's K.K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa, all being executive Directors are the registered members and directors of Hui's K.K. Foundation Limited

2) Mr. Yu is a director and a shareholder of the Vendor. Ms. Kau is a shareholder of the Vendor. Pursuant to the Acquisition Agreement, the Vendor has undertaken to procure its beneficial owners and parties acting in concert with them shall not, in aggregate, hold more than 28% of the entire issued share capital of the Company as long as the Vendor is a holder of the Convertible Notes. The Vendor, Mr. Yu, Ms. Kau and Mr. Chung Chi Shing are presumed to be parties acting in concert with each other under the Takeovers Code by virtue of the respective shareholding interests of Mr. Yu, Ms. Kau and Mr. Chung Chi Shing in the Vendor.

3) This column is for illustrative purpose. Pursuant to the terms of the Acquisition Agreement, the Company will not issue any Conversion Shares to the Vendor if upon the issue of such Conversion Shares will result in (i) an insufficiency of public float of Shares as required by the Listing Rules or (ii) shareholding of the Vendor and/or parties acting in concert with it holding more than 28% of the entire issued share capital of the Company.

   The Company will comply with the relevant requirements of the Takeovers Code if the Convertible Notes are exercised.

As at the Latest Practicable Date, save for the options which were granted to the Group's employees conferring rights to subscribe for 67,409,600 new Shares, the Company has no outstanding options, warrants or convertible instruments to subscribe for any Shares.

FINANCIAL EFFECTS OF THE ACQUISITION

Following completion of the Acquisition, Lucky Dragon will become a wholly-owned subsidiary of the Company. The following sets out, for illustrative purposes only, the key financials of (i) the unaudited pro forma income statement of the Enlarged Group commencing on 1 January 2006 as if the Acquisition had been completed on 1 January 2006; and (ii) the unaudited pro forma balance sheet of the Enlarged Group as at 31 December 2006 as if the Acquisition had been completed on 31 December 2006. The unaudited pro forma financial information of the Enlarged Group in respect of acquisition of Lucky Dragon and Heng Yuan set out in Appendix IV to this circular was excluding the acquisition of Mingrunfeng. Please refer to Appendix IV to this circular for basis of preparing the pro forma financial information on the Enlarged Group after completion of the Acquisition.

Net Assets

As set out in Appendix IV to this circular, assuming completion of the Acquisition had taken place on 31 December 2006, the Acquisition would increase the pro forma net assets of the Enlarged Group by approximately HK$376.7 million, comprising of an increase of total assets of approximately HK$668.0 million and an increase of total liabilities of approximately HK$291.3 million.

Earnings

As set out in Appendix IV to this circular, assuming the completion of the Acquisition had taken place on 1 January 2006, the Acquisition would decrease the pro forma net profit of the Enlarged Group by approximately HK$0.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF LUCKY DRAGON AND HENG YUAN

(1) Management Discussion and Analysis of the Performance of Lucky Dragon

For the period from 30 April 2007 (date of incorporation) to 31 July 2007

For the period from 30 April 2007 (date of incorporation) to 31 July 2007, Lucky Dragon had not commenced any operation and did not record any revenue. During the period, Lucky Dragon had incurred net loss of approximately HK$30,000 which was resulted from general and administrative expenses incurred during the period.

As at 31 July 2007, Lucky Dragon had asset of approximately HK$20,730,000 represented by cash and bank balance and liability of approximately HK$20,760,000 represented by amount due to a shareholder. The amount due to a shareholder was unsecured, interest-free and had no fixed terms of repayment. The asset and liability of Lucky Dragon did not have any exposure to fluctuations in exchange rates and Lucky Dragon had not used any financial instruments for hedging purposes. The gearing ratio of Lucky Dragon as at 31 July 2007 calculated as a ratio of total borrowing to total asset was approximately 100%. As at 31 July 2007, Lucky Dragon had not charged any of its asset and did not have any contingent liability.

As at 31 July 2007, Lucky Dragon had capital commitment in respect of its consideration payable in relation to the acquisition of Heng Yuan. Pursuant to the terms of the Lucky Dragon Agreements, Lucky Dragon shall settle the outstanding consideration to the pre-existing shareholders of Heng Yuan as follow:

a) a fixed consideration of RMB32 million in relation to the Huanghuashan Coal Mine not subject to any adjustment; and

b) an adjustable consideration based on the amount of coal reserves of the Xi Meng Coal Mine as assessed by an independent PRC exploration company as at the general exploration stage Mine will be added in the event that:

   (i) if the amount of coal reserves of the Xi Meng Coal Mine is less than 200 million tons, Lucky Dragon shall pay RMB0.16 per ton of total coal reserves;

   (ii) if the amount of coal reserves of the Xi Meng Coal Mine is more than 200 million tons but less than 300 million tons, Lucky Dragon shall pay RMB0.2 per ton of total coal reserves; and

   (iii) if the amount of coal reserves of the Xi Meng Coal Mine is more than 300 million tons, Lucky Dragon shall pay RMB60 million (which is equivalent to RMB0.2 per ton of coal for the initial 300 million tons of coal reserves) plus RMB0.1 per ton of additional coal reserves in excess of the initial 300 million tons.

Pursuant to the general exploration stage exploration report of the Xi Meng Coal Mine issued by the PRC Exploration Company in October 2007, Xi Meng Coal Mine has a coal reserve of approximately 432.53 million tons and accordingly the total purchase consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan amounted to approximately RMB105.3 million. As at the Latest Practicable Date, Lucky Dragon has made payment of approximately RMB35.0 million to the pre-existing shareholders of Heng Yuan and has paid certain costs of approximately RMB6.0 million on behalf of the pre-existing shareholders of Heng Yuan (such amount shall be deducted from the consideration payable by Lucky Dragon in accordance with the terms of the Lucky Dragon Agreements). Accordingly, Lucky Dragon had outstanding capital commitment of approximately RMB64.3 million payable to the pre-existing shareholders of Heng Yuan as at the Latest Practicable Date.

At 31 July 2007, Lucky Dragon did not have any employee and no remuneration had been paid to its employee during the period.

(2) Management Discussion and Analysis of the Performance of Heng Yuan

For the period from 11 January 2005 (date of registration) to 31 December 2005

Heng Yuan was established in the PRC on 11 January 2005. During the period, Heng Yuan has acquired the mining rights and begun the construction of the Huanghuashan Coal Mine. Heng Yuan had suffered net loss of approximately HK$740,000 resulted from the general and administrative expenses incurred during the period.

As at 31 December 2005, Heng Yuan had assets of approximately HK$18,461,000 mainly comprised of intangible assets of approximately HK$18,393,000 in relation to the costs incurred in relation to the mining rights and construction works of the Huanghuashan Coal Mine and liability of approximately HK$18,686,000 comprised of amount due to a shareholder. The amount due to a shareholder was unsecured, interest-free and had no fixed terms of repayment. The assets and liability of Heng Yuan did not have any exposure to fluctuations in exchange rates and Heng Yuan had not used any financial instruments for hedging purposes. The gearing ratio of Heng Yuan as at 31 December 2005 calculated as a ratio of total borrowings to total assets was approximately 101%. As at 31 December 2005, Heng Yuan had pledged fixed assets of approximately HK$1,597,000 in order to provide a guarantee in respect of a loan borrowed by a related party in the amount of approximately HK$824,000.

As at 31 December 2005, Heng Yuan did not have any material capital commitment. During the period, Heng Yuan did not have any acquisition or disposal of subsidiary or associated company.

At 31 December 2005, Heng Yuan had 151 employees. Remuneration packages were reviewed on a periodical basis so as to be maintained at a competitive level.

For the year ended 31 December 2006

For the year ended 31 December 2006, Heng Yuan continued with its construction of the Huanghuashan Coal Mine and suffered net loss of approximately HK$361,000 resulted from the general and administrative expenses incurred during the period.

As at 31 December 2006, Heng Yuan had assets of approximately HK$20,570,000 mainly comprised of intangible assets of approximately HK$20,472,000 in relation to the costs incurred in relation to the mining rights and construction works of the Huanghuashan Coal Mine and liability of approximately HK$21,156,000 comprised of amount due to a shareholder. The amount due to a shareholder was unsecured, interest-free and had no fixed terms of repayment. The assets and liability of Heng Yuan did not have any exposure to fluctuations in exchange rates and Heng Yuan had not used any financial instruments for hedging purposes. The gearing ratio of Heng Yuan as at 31 December 2006 calculated as a ratio of total borrowings to total assets was approximately 103%. As at 31 December 2006, Heng Yuan had pledged fixed assets of approximately HK$1,597,000 in order to provide a guarantee in respect of a loan borrowed by a related party in the amount of approximately HK$824,000.

As at 31 December 2006, Heng Yuan did not have any material capital commitment. During the period, Heng Yuan did not have any acquisition or disposal of subsidiary or associated company.

At 31 December 2006, Heng Yuan had 14 employees. Remuneration packages were reviewed on a periodical basis so as to be maintained at a competitive level.

For the seven months ended 31 July 2007

For the seven months ended 31 July 2007, Heng Yuan continued with its construction of the Huanghuashan Coal Mine and has begun the exploration of the Xi Meng Coal Mine. During the period, Heng Yuan recorded net profit of approximately HK$22,081,000 as a result of the other income arising from the waiver of an amount due to the pre-existing shareholders of Heng Yuan in the amount of approximately HK$22,243,000.

As at 31 July 2007, Heng Yuan had assets of approximately HK$24,585,000 mainly comprised of intangible assets of approximately HK$24,491,000 in relation to the costs incurred in relation to the mining rights and construction works of the Huanghuashan Coal Mine and the exploration cost incurred in relation to the Xi Meng Coal Mine. As at 31 July 2007, Heng Yuan had liability of approximately HK$3,090,000 comprised of loan from a third party. The loan from a third party was unsecured, interest-free and had no fixed terms of repayment. The assets and liability of Heng Yuan did not have any exposure to fluctuations in exchange rates and Heng Yuan had not used any financial instruments for hedging purposes. The gearing ratio of Heng Yuan as at 31 July 2007 calculated as a ratio of total borrowings to total assets was approximately 13%. As at 31 July 2007, Heng Yuan had pledged fixed assets of approximately HK$1,597,000 in order to provide a guarantee in respect of a loan borrowed by a related party in the amount of approximately HK$824,000. Such guarantee and pledge of assets have been released subsequent to 31 July 2007.

As at 31 July 2007, Heng Yuan had contracted capital commitment in the amount of approximately HK$5,485,000 and authorised capital commitment in the amount of approximately HK$5,536,000 in relation to the exploration of the Xi Meng Coal Mine. During the period, Heng Yuan did not have any acquisition or disposal of subsidiary or associated company.

At 31 July 2007, Heng Yuan had 13 employees. Remuneration packages were reviewed on a periodical basis so as to be maintained at a competitive level.

BUSINESS REVIEW ON THE GROUP

Business and Operational Review

During the year of 2006, the Group continues to engage in the design, manufacture and sale of toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KITECH. In 2006, revenue from toys and decorative gift items was approximately HK$49.1 million (2005: HK$31.8 million) and HK$47.5 million (2005: HK$35.7 million), respectively, accounting for approximately 51% and 49% respectively of the Group's total turnover. The North American market remained to be the most important market segment and accounted for approximately 73% (2005: 72%) of the Group's turnover. The increase in distribution costs by approximately 39% from approximately HK$6.6 million in 2005 to approximately HK$9.2 million for the year was consistent with the increase in the Group's turnover over the preceding year. The administrative expenses of the Group increased by approximately 44% from approximately HK$17.7 million in 2005 to approximately HK$25.5 million in 2006. Apart from the overall increase in administrative expenses as a result of the expansion of the Group's operations, the amortisation of share option costs of approximately HK$4.6 million recognised in 2006 in relation to share options being granted to the Group's staffs during the year also contributed to such increase. Such recognition of share option costs was made in accordance with the relevant Hong Kong Financial Reporting Standards and did not have any impact on the cash flow of the Group for the year.

The toys and gifts market for the year of 2006 remained competitive. Nevertheless, the Group was able to increase its sales by approximately 43% as it has intensified its marketing campaign in order to broaden its sales channel in North America and Europe. During the year, new orders have been received from a number of renowned customers. Gross profit margin has also improved from approximately 33.8% in 2005 to approximately 36.8% in 2006 as the management has rectified its operational management and improved its production efficiency. In addition, the management has developed new products with value-added features to enhance product profitability. With the increase in turnover and improvement in profit margin, the Group managed to turnaround and became profitable for the year.

During the year, the Group commenced the distribution of decorative flags and garden products through the "Toland" brand name with an aim to increase our product variety and to improve our competitiveness in the decorative flags and garden products market. In order to strengthen the sales and marketing activities and to facilitate the research and development functions, it has also established a jointly controlled entity in the United States which is responsible for the marketing and development of the Group's decorative flags and garden products for the North American market.

In 2006, the Group has become a licensed supplier for the mascot toy products of the Beijing 2008 Olympic. It has obtained the license to manufacture different toys categories including plush toys, plastic toys, inflatable toys and electronic toys. In addition, the Group is the sole manufacturer who is able to produce nano-technology plush toys by applying the licensed Swedish Texcote Technology. With environmental friendly features of water repellence, stain resistance and anti-bacteria, its nano-technology mascot toys have received encouraging response in the PRC market.

Material Acquisitions

On 2 September 2006, the Group entered into a capital contribution agreement to contribute RMB20 million to the registered capital in Mingrunfeng in return for a 51% equity interests in Mingrunfeng. On 22 September 2006, the Group entered into agreements to provide a revolving loan facility of not exceeding RMB40 million to Mingrunfeng and to provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to the Group's equity interest in Mingrunfeng, subject to the terms and conditions of such agreements. Subsequent to the year end date on 16 January 2007, the Group further entered into various acquisition agreements with the original shareholders of Mingrunfeng to acquire all the remaining equity interest of Mingrunfeng at a consideration of approximately HK$119.5 million to be satisfied by the issue and allotment of 362,000,000 consideration Shares at an issue price of HK$0.33 per Share. Details of the agreements and the acquisitions were set out in the Company's announcements dated 26 September 2006 and 1 February 2007, and in the Company's circular dated 30 March 2007. The acquisitions of Mingrunfeng, the loan facility agreement and the guarantee agreement had all been approved by the Shareholders of the Company at an extraordinary general meeting held on 16 April 2007. The Group had completed the related procedures to effect the acquisitions of the entire equity interest in Mingrunfeng and the acquisitions were completed on 2 October 2007.

Mingrunfeng is the legal owner of the exploration right of a coal mine in Xilinguolemeng of the Inner Mongolia. The coal mine has a site area of approximately 24.91 square kilometres and is located close to highways and railways. According to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting"), the coal mine has estimated coal resource of 106 million tons and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal market. In addition, SRK Consulting concluded that there appears to be no issues that may cause significant impact on the mining of the coal mine as it has no igneous intrusions and little or no structural features. According to a coal reserve assessment report approved by the Department of Land and Resources of Inner Mongolia on 1 June 2007, the estimated coal resource of the Guerbanhada Coal Mine has increased to 128.86 million tons as a result of the completion of the detailed exploration stage of exploration. The detailed exploration stage of exploration is the final stage of exploration for coal mines. The current at-pit market price for the coal of the coal mine is around RMB160 per tonne. Coal Expert A and Coal Expert B estimated that the funding requirement of the Guerbanhada Coal Mine for the next 24 months will be approximately RMB120 million to construct an open-pit coal mine with annual production capacity of 3 million tons and it is expected that the coal mine will commence exploitation of its proven reserves and commence recoveries on a commercial scale by the end of 2008. In addition, Coal Expert A and Coal Expert B estimated that the unit production cash cost of the Guerbanhada Coal Mine will be approximately RMB50 per ton of coal. The estimated unit production cash cost of the Guerbanhada Coal Mine is lower than those of the Huanghuashan Coal Mine and the Xi Meng Coal Mine as the Guerbanhada Coal Mine is an open-pit coal mine while the Huanghuashan Coal Mine and the Xi Meng Coal Mine are underground coal mines.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Business Prospects

The Directors believe the newly diversified coal business is important as it enables the Enlarged Group to tap the energy and natural resources business and to enter into a diversified and high growth development stage. The Directors are positive about the prospect of the coal mining industry in the PRC. As coal accounted for approximately 70% of PRC's energy consumption, the Directors believe that demand for coal from the electricity and other industries will continue to be robust in the foreseeable future in view of the continual economic growth in the PRC. Upon completion of the acquisitions of Lucky Dragon and Heng Yuan, the aggregate amount of coal reserves of the Enlarged Group will be expanded to over 570 million tons. Capitalising on a stable and well-established industrial business foundation, the Enlarged Group will tap the energy and natural resources business with high growth potential in order to maximise the Shareholders' value.

For the toys and gifts business, the Group is a licensed manufacturer for the mascot toy products of the Beijing 2008 Olympic. The Group have obtained the license to manufacture different toys categories including plush toys, plastic toys, inflatable toys and electronic toys. In addition, the Group are the sole manufacturer which is able to produce nano-technology Olympic plush toys by applying the licensed Swedish Texcote Technology. The Directors believe the sales of the Olympic toy products will peak in the year of 2008 and will enhance the Group's turnover and profitability.

Going forward, the Enlarged Group will continue to explore other investment opportunities in the energy and natural resources industries that have earning potentials in order to expand its existing operations and to diversify its business. With the committed efforts of the staff and management, the Directors are confident and optimistic on the prospects of the Enlarged Group.

WAIVER APPLICATION OF RULE 4.06 OF THE LISTING RULES

Pursuant to Rule 4.06 of the Listing Rules, the Company is required to include in this circular the accountants' reports of Lucky Dragon and Heng Yuan, which are the companies to be acquired in the Acquisition, for the relevant period comprising each of the three financial years immediately preceding the issue of this circular (or, if less, the period since commencement of such business or the incorporation or establishment of such company as the case may be).

As (i) the financial years of Lucky Dragon and Heng Yuan end on 31 December, (ii) the management accounts of Lucky Dragon and Heng Yuan for the year ended 31 December 2007 have only been recently finalized, and (iii) this Circular has to be despatched on or before 31 January 2008 pursuant to a waiver granted by the Stock Exchange on 4 January 2008, it is not feasible for the accountants' reports of Lucky Dragon and Heng Yuan to be prepared up to 31 December 2007 within a period of less than one month after the financial year end date of Lucky Dragon and Heng Yuan. If the accountants' reports of Lucky Dragon and Heng Yuan are to be prepared up to 31 December 2007, additional time will be required for the reporting accountants to perform an audit on the financial information of Lucky Dragon and Heng Yuan for the year ended 31 December 2007, the date of the despatch of this Circular will be further delayed and additional costs will have to be incurred by the Company, both of which will not be in the interests of the Company and the Shareholders as a whole. In addition, (i) the accountants' report on Lucky Dragon was prepared for the period from its incorporation on 30 April 2007 (date of incorporation) to 31 July 2007; and (ii) the accountants' report on Heng Yuan was prepared for the period from 11 January 2005 (date of registration) to 31 December 2005, for the year ended 31 December 2006 and for the period from 1 January 2007 to 31 July 2007, have been included in Appendix II to this circular in accordance with the requirements of Rule 14.69(4)(a)(i) of the Listing Rules which relate to a financial period ended six months or less before this circular is issued. Accordingly, the Directors consider that there should be sufficient information for the Independent Shareholders to consider whether to vote for or against the Acquisition at the EGM.

For the reasons mentioned above, the Company has applied to the Stock Exchange for a waiver from the strict compliance with the requirements under Rule 4.06 of the Listing Rules on the basis that the Directors confirm that sufficient due diligence works have been performed to ensure that there were no material adverse changes in the financial position and the prospects of Lucky Dragon and Heng Yuan since 31 July 2007 and up to the Latest Practicable Date and there is no event since 31 July 2007 which would materially affect the information as shown in the accountants' reports of Lucky Dragon and Heng Yuan.

GENERAL

Mr. Yu, being a director of the Vendor and is beneficially interested in 22.5% of the issued share capital of the Vendor, is a connected person of the Company by virtue of him being a substantial Shareholder by holding approximately 10.11% of the issued share capital of the Company as at the Latest Practicable Date. Therefore the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition also constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Other than the Acquisition, the Company did not have any transaction with the Vendor and its associates and its ultimate beneficial owners within the preceding 24 months period and has not concluded any acquisition with Mr. Yu, Ms. Kau or the Vendor in the past 24 months. The Company does not have any change in control (as defined in the Takeovers Code) within the past 24 months.

To the best of the Directors' knowledge, information and belief and after having made all reasonable enquires, the Vendor confirms that the Vendor is independent and not a connected person of the vendors of Mingrunfeng. There is no relationship between the Acquisition and the acquisition of Mingrunfeng. Details of Mingrunfeng are set out in the announcements dated 26 September 2006, 1 February 2007, 3 April 2007 and the circular dated 30 March 2007 issued by the Company.

According to the Listing Rules, the Acquisition is subject to, among the others, the Independent Shareholders' approval at the EGM, by way of poll. Given their interests in the Acquisition, the Vendor, Mr. Yu, Ms. Kau, Mr. Chung Chi Shing and their respective associates, if having a shareholding interest in the Company, are required to abstain from voting on the relevant resolutions in respect of the Acquisition Agreement and the transactions contemplated thereunder at the EGM. As at the Latest Practicable Date, (i) Mr. Yu and Ms. Kau are interested in 344,500,000 Shares and 126,870,000 Shares, representing approximately 10.11% and 3.72% of the entire issued share capital of the Company respectively; and (ii) Mr. Chung Chi Shing has no shareholding interest in the Company. As at the Latest Practicable Date, Mr. Yu, Ms. Kau and their respective associates are interested in an aggregate of 471,370,000 Shares, representing approximately 13.83% of the entire issued share capital of the Company. Other than the Vendor, Mr. Yu, Ms. Kau, Mr. Chung Chi Shing and their respective associates, no other person has material interest in the Acquisition that will be required to abstain from voting on the relevant resolutions in respect of the Acquisition and the transactions contemplated thereunder at the EGM.

EGM

Set out on pages 407 to 408 is a notice convening the EGM to be held at Mont Blanc Room of the Pacific Place Conference Centre at Level 5, One Pacific Place, 88 Queensway, Hong Kong at 2:30 p.m. on Monday, 18 February 2008 at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, approve the Acquisition and the transactions contemplated thereunder by way of poll.

A form of proxy for use at the EGM is enclosed. If you are not able to attend and/or vote at the EGM in person, you are strongly urged to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

RECOMMENDATIONS

The Directors are of the opinion that the terms of the Acquisition Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favor of the ordinary resolutions to be proposed at the EGM to approve the Acquisition and the transactions contemplated thereunder.

An Independent Board Committee has been established to advise the Independent Shareholders in relation to the terms of the Acquisition Agreement and the transactions contemplated thereunder. Grand Cathay has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder. The appointment of Grand Cathay has been approved by the Independent Board Committee.

Your attention is drawn to the letter from the Independent Board Committee set out on page 36 of this circular. Your attention is also drawn to the letter of advice from Grand Cathay which contains, among other things, their advice to the Independent Board Committee and Independent Shareholders in respect of the Acquisition, and the principal factors and reasons considered by them in arriving at such advice. The text of the letter from Grand Cathay is set out on pages 37 to 72 of this circular.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

The financial information of Jumplex, First Choice, Wise House and Mingrunfeng set out in Appendix III to this circular is for information purposes only.

The valuation report on the exploration rights of Xi Meng Coal Mine and the mining rights of Huanghuashan Coal Mine set out in the Appendix V to this circular has been prepared by RHL Appraisal Limited, an Independent Third Party, at the request of Grand Cathay, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition Agreement and the transactions contemplated thereunder, for the purpose of its assessment on the Consideration. Such valuation was not available at the time of entering into the Acquisition Agreement and was not taken into account for the entering into of the Acquisition Agreement.

The Directors have reviewed the valuation methodology, assumptions and parameters of the valuations of the exploration rights of Xi Meng Coal Mine and the mining rights of Huanghuashan Coal Mine and are of the view that the valuation methodology, assumptions and parameters of the valuations of the exploration rights of Xi Meng Coal Mine and the mining rights of Huanghuashan Coal Mine and the valued amounts are fair and reasonable.

By Order of the Board
Kiu Hung International Holdings Limited
Hui Kee Fung
Chairman

僑雄國際控股有限公司
Kiu Hung International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00381)

31 January 2008

To the Independent Shareholders

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you in connection with Acquisition, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 31 January 2008 (the "Circular"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the terms of the Acquisition Agreement and the advice of Grand Cathay in relation thereto as set out from pages 37 to 72 of the Circular, we are of the view that Acquisition is fair and reasonable and is in the interest of the Company and the Independent Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM to approve the Acquisition and the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the Independent Board Committee

Mr. Peng Guanghui	**Mr. Kung King Ching, Conrad**	**Mr. Tang Rongzu**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from Grand Cathay in connection with the Acquisition which has been prepared for inclusion in this circular.

大華證券(香港)

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31 January 2008

To the Independent Board Committee
and the Independent Shareholders of
Kiu Hung International Holdings Limited

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO FURTHER ACQUISITION OF COAL BUSINESS

INTRODUCTION

We refer to our engagement as financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, particulars of which are set out in the letter from the Board (the "Letter from the Board") of the Company's circular dated 31 January 2008 (the "Circular"), of which this letter forms part. Unless the context requires otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

On 4 September 2007, the Board announced that the Purchaser, being a wholly-owned subsidiary of the Company, and the Vendor had entered into the Acquisition Agreement on 16 August 2007 (with letter of amendment dated 4 September 2007) pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share, being the entire issued share capital of Lucky Dragon and the Indebtedness at a total consideration of HK$840 million (subject to Adjustments A, B and/or C).

Lucky Dragon owns the entire equity interest in Heng Yuan which in turn owns (i) the mining rights and other relevant operation facilities and properties in relation to the Huanghuashan Coal Mine and (ii) the exploration rights of the Xi Meng Coal Mine which are located in Inner Mongolia of the PRC.

The Acquisition constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Mr. Yu, a director of the Vendor, is beneficially interested in 22.5% of the issued share capital of the Vendor as at the Latest Practicable Date. By virtue of holding approximately 10.11% of the issued share capital of the Company as at the Latest Practicable Date, Mr. Yu is a connected person of the Company. Accordingly, the Acquisition constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules which is subject to, among other things, the Independent Shareholders' approval at the EGM.

The Vendor is beneficially owned as to 22.5% by Mr. Yu, 22.5% by Ms. Kau and 55% by Mr. Chung Chi Shing. As at the Latest Practicable Date, (i) Mr. Yu and Ms. Kau are interested in 344,500,000 Shares and 126,870,000 Shares, representing approximately 10.11% and 3.72% of the entire issued share capital of the Company respectively; and (ii) Chung Chi Shing has no shareholding interest in the Company. Given their material interest in the Acquisition, the Vendor, Mr. Yu, Ms. Kau, Mr. Chung Chi Shing and their respective associates, if having a shareholding interest in the Company, are required to abstain from voting on the relevant resolutions in respect of the Acquisition Agreement and the transactions contemplated thereunder at the EGM.

The Independent Board Committee, comprising Mr. Peng Guanghui, Mr. Kung King Ching, Conrad and Mr. Tang Rongzu, all being independent non-executive Directors, has been established to advise the Independent Shareholders in relation to the terms of the Acquisition Agreement and the transactions contemplated thereunder. We, Grand Cathay Securities (Hong Kong) Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, opinion and representations contained or referred to in the Circular and the information, opinion and representations provided to us by the management of the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the management of the Company and the Directors, for which they are solely and wholly responsible, were true, accurate and complete at the time when they were made and continue to be so at the date hereof.

Accordingly, we have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and representations contained in the Circular and provided to us by the management of the Company and the Directors, or the reasonableness of the opinions expressed by the management of the Company and the Directors. The Directors collectively and individually accept full responsibility for the accuracy of the information in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in the Circular misleading. Furthermore, we relied on the Company that it has provided us sufficient information to reach an informed view and to provide a reasonable basis for our opinion and we have relied on such information and opinions. We consider that we have performed all reasonable steps as required under Rule 13.80 of the Listing Rules (including the notes thereto) to formulate our opinion and recommendation. We have not, however, conducted any independent in-depth investigation into the business, financial conditions and affairs or the future prospects of the Group, Lucky Dragon and Heng Yuan.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion on the Acquisition, we have considered the following factors and reasons:

1. Backgrounds

Reasons of the Acquisition

The Company and its subsidiaries are principally engaged in the design, manufacture and sale of toys and decorative gift items, and exploration and exploitation of coal mines.

In order to diversify the businesses of the Group, the Company has been actively exploring new investment opportunities with profitable prospects. In view of the worldwide increasing demand for natural and energy resources, the Company has commenced to diversify its business portfolio in the first half of 2007 by the acquisition of the Guerbanhada Coal Mine located in Inner Mongolia, the PRC through the acquisition of the equity interests in Mingrunfeng (details of which are set out in the announcements dated 26 September 2006, 1 February 2007 and 3 April 2007 and the circular dated 30 March 2007 issued by the Company).

By tapping into the business expansion opportunities to be enlightened by the Acquisition, the Directors consider that the Acquisition will further create strategic values for the Company by increasing the coal reserves and broadening the geological strength of its coal business and therefore will be in the interests of the Company and the Shareholders as a whole.

We have been advised by the Directors that they are positive about the prospect of the coal mining industry in the PRC. According to the industrial research published on 31 July 2007 made by China International Capital Corporation Limited ("中國國際金融有限公司"), coal accounted for approximately 70% of PRC's energy consumption. According to Quamnet, in 2005, the power sector accounted for approximately 52% of the coal consumption in the PRC, followed by steel (14%) and construction (mainly cement; 9%). Recent PRC industrial data published by the National Development and Reform Commission of the PRC ("國家發展和改革委員會") also suggested for strong demand for coal by various industrial sectors. For instance, for the first seven months of 2007, PRC electricity output has increased by approximately 16.5% as compared with the same period of 2006 and while the electricity output for coal-fired electricity plants for the first seven months of 2007 has increased by approximately 18.6% as compared with the same period for 2006. According to State Power Information Network of the PRC ("國家電力信息網"), coal-fired electricity accounted for approximately 80% of the total electricity generation in the PRC. According to Quamnet, crude steel and cement outputs in the PRC rose by approximately 23% and 12%, respectively, in the first four months of 2007 as compared with the same period in 2006. China International Capital Corporation

Limited has estimated that coal demand in the PRC will increase from approximately 2.38 billion tons in 2006 to approximately 3.01 billion tons in 2010. Statistics from the General Administration of Customs of the PRC ("中國海關總署") also revealed that PRC has become a net coal importer in 2007. In view of the continual economic growth in the PRC, the Directors are of the opinion that the demand for coal from the electricity and other industries will continue to be robust in the foreseeable future and the tension for global energy demand will continue.

Financial information of the Group

The following table shows the key financial results of the Group for the six months ended 30 June 2007 and 2006 as extracted from the 2007 interim report of the Company and for the three years ended 31 December 2006 as set out in the Appendix I of the Circular:

	For the six months ended 30 June		**For the year ended 31 December**		
	2007	**2006**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Audited)	(Audited)	(Audited)
Turnover	41,769	33,291	96,578	67,528	80,674
Gross profit	11,660	9,872	35,532	22,823	20,959
Gross profit margin	27.9%	29.7%	36.8%	33.8%	26.0%
Profit/(Loss) after tax	135,125	(4,382)	1,140	(41)	(11,942)

In 2005, the turnover of the Group has decreased to approximately HK$67.5 million from that of approximately HK$80.7 million in 2004. According to the Directors, the drop in turnover was mainly due to the intense competition in the PRC toy and gift markets. However, the Group managed to significantly narrow its net losses from approximately HK$11.9 million in 2004 to approximately HK$0.04 million in 2005 as a result of the development of new products with value-added features to enhance product profitability and the implementation of various cost control measures by the Group. Accordingly, the profit margin of the Group was remarkably improved from approximately 26.0% in 2004 to approximately 33.8% in 2005.

In 2006, the turnover of the Group increased to approximately HK$96.6 million as compared to approximately HK$67.5 million in 2005. We have been advised by the Directors that despite the fierce competition in the toys and gifts market in 2006, the Group was able to increase its sales by approximately 43% by intensifying its marketing campaign in order to broaden its sales channel in North America and Europe. Gross profit margin has also improved from approximately 33.8% in 2005 to approximately 36.8% in 2006 as the management has rectified its operational management and improved its production efficiency. With the increase in turnover and improvement in profit margin, the Group managed to turnaround and became profitable in 2006. It is mentioned in the 2006 annual report of the Company that a new brand name – "Toland" was introduced for the decorative flags and garden products with an aim to increase the variety of the Group's products and to improve its competitiveness in the decorative flags and garden products market.

For the six months ended 30 June 2007, the Group recorded turnover of approximately HK$41.8 million (2006: HK$33.3 million), representing an increase of approximately 25% as compared with the first half of 2006.

For the first half of 2007, the Group diversified from its principal business of design, manufacture and sale of gift and toy products to the mining and exploration of coal through the acquisition of Mingrunfeng. During the period, the Group has experienced improved sales performance as a result of the improvement of the global economy and the increased marketing effort of the Group. In addition, the distribution of decorative flags and garden products through the "Toland" brand name also contributed to the increase in revenue for the period.

During the period, the Group recorded a gain of approximately HK$141.4 million (2006: nil) arising from the excess of the Group's share of the net fair values of the net assets in Mingrunfeng over the costs of the acquisitions. As a result, the Group's profit for the period was significantly lifted to approximately HK$135.1 million (first six month of 2006: net loss of HK$4.4 million).

Based on the above financial review of the Group in the previous years, we consider that the financial performance of the Group in the toy and gift items business segment was not satisfactory despite the continual efforts of the management. The profit and return of the Group in the previous years was apparently hindered by the sustained competitive environment of toy and gift market. Having considered the reasons of the Acquisition as set out in the previous paragraph, we are of the view that the Acquisition represents an opportunity for the Group to develop its coal business which has demonstrated with profitable prospects and the Acquisition therefore is in the interest of the Company and its Shareholders as a whole.

Information on subject assets

Lucky Dragon

Lucky Dragon is a company incorporated in the British Virgin Islands on 30 April 2007 with limited liability and holds the entire equity interest in Heng Yuan. Lucky Dragon has entered into the Lucky Dragon Agreements on 19 July 2007 to acquire the entire equity interest in Heng Yuan from its pre-existing shareholders, who are Independent Third Parties. The certificate of approval and the business license for such acquisition were issued by the relevant government authorities on 27 July 2007 and 13 August 2007, respectively. In accordance with the PRC legal opinion, the acquisition of Heng Yuan by Lucky Dragon will be completed upon Lucky Dragon has settled all the consideration payable in relation to such acquisition. As set out in the Letter from the Board, save for Mr. Yu's shareholding interests of 22.5% in the Vendor and approximately 10.11% in the Company and Ms. Kau's shareholding interests of 22.5% in the Vendor and approximately 3.72% in the Company, the pre-existing shareholders of Heng Yuan, the Vendor and its ultimate shareholders and the substantial shareholders of the Company and their associates/ultimate shareholders are independent of and not connected with each other. The consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan was only partially settled as at the Latest Practicable Date.

Pursuant to the terms of the Lucky Dragon Agreements, Lucky Dragon shall settle the outstanding consideration to such pre-existing shareholders of Heng Yuan as follows:

A) a fixed consideration of RMB32 million not subject to any adjustment; and

B) an adjustable consideration based on the amount of coal reserves as assessed by an independent PRC exploration company at the general exploration stage on the Xi Meng Coal Mine will be added in the event that:

  i) the amount of coal reserves of the Xi Meng Coal Mine is less than 200 million tons, Lucky Dragon shall pay RMB0.16 per ton of total coal reserves;

  ii) the amount of coal reserves of the Xi Meng Coal Mine is more than 200 million tons but less than 300 million tons, Lucky Dragon shall pay RMB0.2 per ton of total coal reserves; and

  iii) the amount of coal reserves of the Xi Meng Coal Mine is more than 300 million tons, Lucky Dragon shall pay RMB60 million (which is equivalent to RMB0.2 per ton of coal for the initial 300 million tons of coal reserves) plus RMB0.1 per ton of additional coal reserves in excess of the initial 300 million tons.

Pursuant to the general exploration stage exploration report of the Xi Meng Coal Mine issued by the PRC Exploration Company in October 2007, Xi Meng Coal Mine has a coal reserve of approximately 432.53 million tons and accordingly the total purchase consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan amounted to approximately RMB105.3 million. As at the Latest Practicable Date, Lucky Dragon has made payment of approximately RMB35.0 million to the pre-existing shareholders of Heng Yuan and has paid certain costs of approximately RMB6.0 million on behalf of the pre-existing shareholders of Heng Yuan (such amount shall be deducted from the consideration payable by Lucky Dragon in accordance with the terms of the Lucky Dragon Agreements). Accordingly, Lucky Dragon had outstanding capital commitment of approximately RMB64.3 million payable to the pre-existing shareholders of Heng Yuan as at the Latest Practicable Date.

As set out in the Letter from the Board, Lucky Dragon is indebted to the Vendor in the sum of approximately HK$49.5 million as at the Latest Practicable Date and is wholly and beneficially owned by the Vendor. The amount of Indebtedness has increased by approximately HK$28.7 million from the date of the Announcement to approximately HK$49.5 million as the Vendor has lent additional amount to Lucky Dragon mainly for the payment of the consideration payable to the pre-existing shareholders of Heng Yuan. The Directors are of the view that the net liability position of Lucky Dragon will not have any financial effect on the Enlarged Group upon Completion as all amounts due from Lucky Dragon will be assigned to the Purchaser. Accordingly, Lucky Dragon will not be required to repay such amounts to the Vendor. Save for its equity interests in Heng Yuan and a bank balance of approximately HK$8.0 million, Lucky Dragon has no other investment or major asset as at the Latest Practicable Date. Before the execution of the MOU, we have been advised by the Directors that the management of the Company does not have any information or knowledge about Heng Yuan or its pre-existing shareholders.

Heng Yuan

Heng Yuan is a wholly-owned foreign enterprise established in the PRC on 11 January 2005. It is principally engaged in the sale of mine products other than noble metal and iron ore but has become dormant since its establishment. Heng Yuan owns (i) the mining rights and other relevant operation facilities and properties in relation to the Huanghuashan Coal Mine situated in Tongliao City of Inner Mongolia and (ii) the exploration rights of the Xi Meng Coal Mine situated in Xilinguolemeng of Inner Mongolia. Mining rights allow the owner of the mining license to exploit and sell the coal resources, while exploration rights allow the owner of the exploration license to perform exploration works on the coal mine. The operating period of the mining rights in the Huanghuashan Coal Mine is from November 2007 to November 2010. The operating period of the exploration rights in the Xi Meng Coal Mine is from July 2005 to July 2008. Based on the PRC legal opinion, applications for extensions can be made within 30 days prior to the expiration of the mining rights and the exploration rights. The mining right in the Huanghuashan Coal Mine is subject to an extension of 5 years while the exploration right in the Xi Meng Coal Mine is subject to an extension of 2 years. According to the PRC legal opinion, Heng Yuan does not have any legal obstacles for the renewal of the mining rights and the exploration rights.

Heng Yuan is currently the holder of the mining license of the Huanghuashan Coal Mine. Heng Yuan is also the holder of the exploration license of the Xi Meng Coal Mine while its exploration works are being performed. Heng Yuan had made application with relevant authorities of land and resources (“相關國土資源管理部門”) to change the business type in association with its mining license (“採礦權證”) of the Huanghuashan Coal Mine from a domestic enterprise (“內資企業”) to a foreign enterprise (“外資企業”) and such change was completed on 5 November 2007. Save for the interests in the Huanghuashan Coal Mine and the Xi Meng Coal Mine, Heng Yuan has no other investments or major assets as at the Latest Practicable Date.

Huanghuashan Coal Mine

The Huanghuashan Coal Mine is located in Tongliao City of Inner Mongolia. Heng Yuan owns the mining rights and other relevant operating facilities and properties in relation to the mining rights of the Huanghuashan Coal Mine. Nevertheless, the exploitation work of Huanghuashan Coal Mine is still subject to the obtaining of Coal Production Safety Permit ("煤炭安全生產許可證") and Coal Production Permit ("煤炭生產許可證") from the relevant authorities of land and resources. After Heng Yuan has obtained the Coal Production Safety Permit and Coal Production Permit, Heng Yuan can then make application to the government authorities for the inclusion of coal mining ("煤炭生產") as its principal activities in its business license and to commence coal mining activities. The Coal Production Safety Permit, Coal Production Permit and the approval for the inclusion of coal mining as its principal activities are expected to be obtained before 29 February 2008. As set out in the Letter from the Board, the PRC legal adviser of the Company does not foresee any obstacles for obtaining the above permissions and approvals.

It is stated in the Letter from the Board that pursuant to a resource/reserve assessment report ("資源／儲量核實報告") compiled by Team 472 of the Inner Mongolia Bureau of Coal Field Geology ("內蒙古煤田地質局472勘探隊") ("472nd Exploration Brigade") in 2004, Huanghuashan Coal Mine has an estimated coal reserves of approximately 5.42 million tons. The at-pit market price of the coal expected to be extracted from the Huanghuashan Coal Mine is approximately RMB250 per ton as estimated by a coal expert of the Group based on the conditions of the present coal market. The Directors are of the opinion that the coal price of the Huanghuashan Coal Mine as estimated by the coal expert of the Group is fair and reasonable as the coal expert has over 41 years of experience in the PRC coal industry. Prior to joining the Group in July 2007, the coal expert has worked with the Handan Coal Bureau ("邯鄲煤炭局"), the Handan Mining Bureau ("邯鄲礦務局") and the Hebei Research Institute of Coal Science ("河北省煤炭科學研究所"). In addition, the coal expert has also worked as the panel head of the Panel of Energy Enterprises in Guangdong and Zhejiang Provinces ("廣東省及浙江省能源企業專家組組長").

We have reviewed the technical report on the Huanghuashan Coal Mine ("Technical Report on the Huanghuashan Coal Mine") conducted by the Mining Expert as set out in the Appendix VII to the Circular and note that the published coal reserve in Huanghuashan Coal Mine by 472nd Exploration Brigade was approximately 9.33 million tons according to Chinese Classification (as defined in the Technical Report on the Huanghuashan Coal Mine). The coal resources of Huanghuashan reviewed by Mining Expert in accordance with Australian Joint Coal Reserves Committee Code ("JORC") was approximately 7.85 million tons. According to the Mining Expert, the difference between the published coal resources by the 472nd Exploration Brigade and the Mining Expert's review of the coal resources in the Huanghuashan Coal Mine was mainly due to the 472nd Exploration Brigade did not accurately discard intrusive-affected coal, as well as coal in the major fault zones, from the resource. According to the Letter from the Board and the Technical Report on the Huanghuashan Coal Mine, the current at-pit market price of the coal expected to be extracted from the Huanghuashan Coal Mine is approximately RMB250-260 per ton (pre-washing) and RMB550-650 per ton (post-washing).

Independent Shareholders are advised to refer to the Technical Report on the Huanghuashan Coal Mine as set out in Appendix VII to the Circular for details of the assessment in relation to the coal reserves in the Huanghuashan Coal Mine prepared by the Mining Expert.

As set out in the Letter from the Board, it is estimated that the funding requirement of the Huanghuashan Coal Mine for the next 24 months will be approximately RMB72 million to expand the production capacity of the Huanghuashan Coal Mine 600,000 tons per annum and to construct coal-washing facilities for the Huanghuashan Coal Mine and it is expected that about 3 months subsequent to Completion will be required to exploit its proven reserves and commence recoveries on a commercial scale.

Pursuant to the Technical Report on the Huanghuashan Coal Mine, the Mining Expert identified a number of environmental issues related to the development of the Huanghuashan Coal Mine not following all the conditions for construction as stated in the governmental approvals. The Mining Expert advises that the most significant potential environmental management liabilities that relate to the operation and development of the Huanghuashan Coal Mine are:

- surface water management and discharges (i.e. stormwater runoff & diversions);
- groundwater management and discharges (i.e. mine dewatering not treated or collected);
- rehabilitation of waste rock and coal stockpiles and other disturbed areas;
- storage and handling of hazardous materials;
- waste generation and management (industrial and domestic wastes);
- no characterization of process waste materials or gangue;
- no monitoring of waste water discharges;
- potential contaminated sites;
- lack of a structured closure planning process; and
- lack of erosion control measures.

Moreover, although the Mining Expert did not conduct a full occupational health and safety inspection at the Huanghuashan mine site, they are of the opinion that sub-standard safety practices compared to other international operations existed at the mine site. Their major concerns include:

- no site inductions at the mine site were conducted for Mining Expert personnel at the underground mine;
- usage of personal protective equipment is comparatively sub-standard (e.g. safety glasses, ear protection, dust masks or safety boots are not worn);
- no sign-in or sign-out was requested from Mining Expert personnel;
- no self-rescuers provided;
- positive lock-out procedures were not applied; and
- no hazard signs posing possible risks to employees and visitors were displayed at the mine.

In addition to the aforementioned reasons for the Acquisition, notwithstanding such environmental issues and occupational health and safety issues raised by the Mining Expert and further capital expenditure in the amount of approximately RMB72 million will be required for the development of the Huanghuashan Coal Mine, the Directors are of the view that the acquisition of the mine is fair and reasonable and are in the interests of the Company and Shareholders as a whole because of the following reasons:

(i) The obtaining of the approval from the Department of Commerce of Inner Mongolia ("內蒙古自治區商務部") and the Administration of Industry and Commerce of Inner Mongolia ("內蒙古自治區工商行政管理局") by Heng Yuan to include coal mining ("煤炭開採") as the scope of business of Heng Yuan and completion of all related procedures, registrations and filings is a condition precedent of the Acquisition Agreement. As per the PRC legal opinion, Heng Yuan must obtain the Coal Production Safety Permit ("煤炭安全生產許可證") and Coal Production Permit ("煤炭生產許可證") before Heng Yuan can include coal mining ("煤炭開採") as its scope of business. Shall Heng Yuan fail to obtain the Coal Production Safety Permit ("煤炭安全生產許可證") and Coal Production Permit ("煤炭生產許可證"), the Acquisition will not be proceeded to Completion. Accordingly, the Directors are of the opinion that the interest of the Company and Shareholders as a whole will be protected from any potential loss resulting from the failure of Heng Yuan to obtain the Coal Production Safety Permit ("煤炭安全生產許可證") and Coal Production Permit ("煤炭生產許可證") as a result of the environmental and occupational health and safety issues listed by the Mining Expert.

(ii) In the course of the application of the Coal Production Safety Permit ("煤炭安全生產許可證"), consent from the government authorities in relation to the coal industry and environmental protection have to be obtained. As per the PRC legal opinion, Heng Yuan has already obtained the written consent from the Tongliao Bureau of Environmental Protection ("通遼市環境保護局") which is responsible for the environmental issues. The Inner Mongolia Bureau of Coal Mine Safety ("內蒙古煤礦安全監察局") which is responsible for the occupational health and safety issues has also approved the safety assessment on the Huanghuashan Coal Mine. Accordingly, the Directors believe that such environmental and occupational health and safety issues listed by the Mining Expert will not affect the application and renewal of the licenses/permits in relation to exploitation of the Huanghuashan Coal Mine.

(iii) The Huanghuashan Coal Mine still has not commenced any commercial production and therefore the current environmental issues and occupational health and safety issues raised by the Mining Expert do not have an immediate impact on the Huanghuashan Coal Mine. The Directors will ensure that the future operations of the Huanghuashan Coal Mine will comply with all applicable environmental and occupational health and safety requirements after the Completion.

(iv) As per the Technical Report on the Huanghuashan Coal Mine set out in Appendix VII to the Circular, the current at-pit market price is approximately RMB250-260 per ton for the raw coal and approximately RMB550-650 per ton for the washed coal while the current production capacity of the Huanghuashan Coal Mine is 300,000 tons per annum. Upon Completion, the Directors plan to invest approximately RMB72 million to expand the production capacity of the Huanghuashan Coal Mine to 600,000 tons per annum and to construct coal-washing facilities for the Huanghuashan Coal Mine. The Directors are of the opinion that such capital investment will greatly enhance the potential value of the Huanghuashan Coal Mine and accordingly, the acquisition of the Huanghuashan Coal Mine will greatly enhance the value and future profitability of the Group.

Xi Meng Coal Mine

The Xi Meng Coal Mine is located in Xilinguolemeng of Inner Mongolia. Heng Yuan is the legal owner of the exploration rights of the Xi Meng Coal Mine. Heng Yuan has appointed the PRC Exploration Company to perform exploration works for the Xi Meng Coal Mine and the general exploration stage is completed in October 2007. Heng Yuan currently holds all the necessary license for the exploration of the Xi Meng Coal Mine. The Directors expect that application for the mining rights of the Xi Meng Coal Mine will be made in the third quarter of 2008. As set out in the Letter from the Board, the PRC legal adviser of the Company expects that there will be no legal obstacles for obtaining the mining rights.

As at the time of the Announcement, based on the progressive results of the exploration works performed by the PRC Exploration Company and pursuant to the Specifications for Coal Peat Exploration ("煤、泥炭地質勘探規範"), the amount of the coal reserves in the Xi Meng Coal Mine as assessed by the PRC Exploration Company would be more than 300 million tons. As set out in the Letter from the Board, the at-pit market price of the coal expected to be extracted from the Xi Meng Coal Mine is approximately RMB190 per ton as estimated by a coal expert of the Group based on the coal samples extracted from the Xi Meng Coal Mine and the conditions of the present coal market. The Directors are of the opinion that the coal price of the Xi Meng Coal Mine as estimated by the coal expert of the Group is fair and reasonable as the coal expert has over 41 years of experience in the PRC coal industry. Prior to joining the Group in July 2007, the coal expert has worked with the Handan Coal Bureau ("邯鄲煤炭局"), the Handan Mining Bureau ("邯鄲礦務局") and the Hebei Research Institute of Coal Science ("河北省煤炭科學研究所"). In addition, the coal expert has also worked as the panel head of the Panel of Energy Enterprises in Guangdong and Zhejiang Provinces ("廣東省及浙江省能源企業專家組組長").

We have reviewed the technical report on the Xi Meng Coal Mine ("Technical Report on the Xi Meng Coal Mine") conducted by the Mining Expert as set out in the Appendix VIII to the Circular and note that the coal resources of Xi Meng Coal Mine was estimated at a total of 434.76 million tons and the current pricing for the coal expected to be extracted from the Xi Meng Coal Mine is approximately RMB190 per ton in Inner Mongolia. Independent Shareholders are advised to refer to the Technical Report on the Xi Meng Coal Mine as set out in Appendix VIII to the Circular for details of the assessment in relation to the coal reserves in the Xi Meng Coal Mine conducted by the Mining Expert.

As set out in the Letter from the Board, it is estimated that the funding requirement of the Xi Meng Coal Mine for the next 24 months will be approximately RMB520 million to construct a coal mine with annual production capacity of 3 million tons and it is expected that about 24 months subsequent to Completion will be required to exploit its proven reserves and commence recoveries on a commercial scale.

The Directors estimate that, upon Completion, the Xi Meng Coal Mine will require:

(i) three months for performance of the detailed exploration stage and approval of such exploration report by the relevant authorities of land and resources;
(ii) three months for the compilation of a feasibility study and coal mine design report;
(iii) three months for the application of the mining license;
(iv) twelve months for the construction of the coal mine; and
(v) three months for obtaining the Coal Production Safety Permit ("煤炭安全生產許可證") and Coal Production Permit ("煤炭生產許可證").

Accordingly, a total of 24 months will be required for Xi Meng Coal Mine to commence production subsequent to Completion.

The Directors plan to finance the future funding requirement by (i) issue of new shares, (ii) issue of convertible bonds, (iii) bank and other borrowings or (iv) a combination of the above.

As set out in the Letter from the Board, it is estimated that the unit production cash cost of the Huanghuashan Coal Mine will be approximately RMB77 per ton of coal (include the cost of coal washing) and the unit production cash cost of the Xi Meng Coal Mine will be approximately RMB63 per ton of coal. The estimated unit production cash cost of the Huanghuashan Coal Mine is larger than that of the Xi Meng Coal Mine as additional cost of approximately RMB10 per ton will be incurred by the Huanghuashan Coal Mine for the coal washing process. No coal washing will be required for the Xi Meng Coal Mine as the coal type of the Xi Meng Coal Mine is thermal coal while the coal type of the Huanghuashan Coal Mine is semi-anthracite coal.

Pursuant to the Technical Report on the Xi Meng Coal Mine set out in Appendix VIII to the Circular, the Xi Meng Coal Mine has an estimated coal reserves of approximately 434.76 million tons. The Mining Expert is of the opinion that such resource estimation is in compliant with the Chinese resource reporting standard only but cannot be reportable under the JORC Code and a number of issues in terms of collection of borehole data has been raised by the Mining Expert.

In addition to the aforementioned reasons for the Acquisition, notwithstanding such technical issues raised by the Mining Expert, the Directors are of the view that the acquisition of the Xi Meng Coal Mine is fair and reasonable and is in the interest of the Company and Shareholders as a whole because the conclusion of such technical report recommends that, given the excellent potential for the Xi Meng Coal Mine to become an economic underground coal mine, further drilling should be conducted in order to provide sufficient detail for a final feasibility study for the project. Accordingly, the Directors plan to invest approximately RMB15 million to make further exploration of the coal mine and to perform a final feasibility study for the Xi Meng Coal Mine. As the Xi Meng Coal Mine is expected to have abundant coal resources of over 400 million tons and as the Directors are of the opinion that the demand of coal from the electricity and other industries will continue to be robust in the PRC, the Directors are of the opinion that the acquisition of the Xi Meng Coal Mine will greatly enhance the value and future profitability of the Group.

We would like to remind the Independent Shareholders that the coal reserves of the Xi Meng Coal Mine and Huanghuashan Coal Mine may not conform to the estimates level as stated in the respective technical reports performed by the Mining Expert. Any failure in discovering coal or in attaining commercial production may adversely affect the investment return of the Acquisition, in particular, exploration, development and production risk as well as operation and environmental and sovereign

risk may occur in the Xi Meng Coal Mine and Huanghuashan Coal Mine. Normal market risk conditions also apply including commodity price, currency fluctuations, supply and demand and general economic outlook. Independent Shareholders are also advised to pay attention to the risk factors associated with the Acquisition disclosed in the paragraph headed "Risks associated with the Acquisition" in the Letter from the Board.

2. Principal terms of the Acquisition Agreement

Subject to be acquired

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share, being the entire issued share capital of Lucky Dragon and the Indebtedness free from all encumbrances together with all rights attached thereto and all dividends and distributions declared, paid or made in respect thereof after the date of the Acquisition Agreement.

The amount of the consideration for the Indebtedness will equal to the amount of the outstanding indebtedness of Lucky Dragon owed to the Vendor as at the date of the Completion. The amount of the consideration for the Sale Share will equal to the total Consideration less the amount of Indebtedness as at the date of the Completion. The amount of Indebtedness as at the Latest Practicable Date is approximately HK$49.5 million.

Consideration and adjustments

The total Consideration of HK$840 million is comprised of (i) HK$40 million (not subject to any adjustment) and (ii) HK$800 million in various means of payment (subject to Adjustment A, B and/or C).

The Consideration shall be settled in the following manner:

(a) as to HK$3 million payable by way of cashier orders upon the signing of the Acquisition Agreement;

(b) as to HK$837 million (subject to Adjustment A, B and/or C) payable on Completion as follows:

   (i) the sum of HK$157 million shall be payable by way of cashier orders;

   (ii) the balance of HK$680 million, minus such amounts as may be deducted according to Adjustment A, B and/or C, shall be payable as follows:

      (a) HK$420 million shall be satisfied by the allotment and issue of Consideration Shares at an issue price of HK$0.70 per Consideration Share; and

(b) HK$260 million shall be satisfied by the issue of Convertible Notes with a conversion price of HK$0.70 per Conversion Share.

According to the 2007 Interim Report, the Group has cash of approximately HK$74.5 million. Therefore, the Group has not enough cash to settle the cash portion of the Consideration. We have been advised by the Directors that the cash component of the Consideration will be financed by internal financial resources of the Group, available banking facilities and/or raising of capital from the equity market. The Company has not yet reached a decision on the form or mix of such financing activities and the Company has not entered into any agreement to raise capital from the equity or debt market.

Adjustment A

- If the reserve of the Xi Meng Coal Mine, as assessed by the Mining Expert, is less than 400 million tons, the Consideration shall be adjusted by deducting the sum of HK$2.0 per ton of the shortfall according to the report compiled by the Mining Expert. Such amount shall be deducted (i) firstly from the value of the Convertible Notes and (ii) secondly, if such amount exceeds the principal amount of the Convertible Notes, from the value of the Consideration Shares; and

- If the reserve of the Xi Meng Coal Mine, as assessed by the Mining Expert, is more than 400 million tons, the Consideration shall be adjusted by adding the sum of HK$0.1 per ton of increment according to the report compiled by the Mining Expert on the cash portion.

According to the Technical Report on the Xi Meng Coal Mine, the coal reserves of the Xi Meng Coal Mine were estimated at a total of 434.76 million tons. Based on the Adjustment A, the Purchaser is required to pay the Vendor an extra sum of approximately HK$3.48 million on the cash portion of the Consideration.

It is mentioned in the paragraph headed "Basis of Consideration" in the Letter from the Board that the reserve of 400 million tons set out in the Acquisition Agreement, which is only a reference, is agreed between the Purchaser and the Vendor to determine the Consideration after arm's length negotiation even though the preliminary estimation made by the PRC Exploration Company is only about 300 million tons after taking into account (i) the final coal reserve will be based on the assessment to be made by the Mining Expert and such result is not available as at the date of the Acquisition Agreement and (ii) the amount of the coal reserves in the Xi Meng Coal Mine as assessed by the PRC Exploration Company is a preliminary estimation only and it is expected that greater amount of coal reserves will be found as the exploration proceeds. After further consideration and after arm's length negotiation, the parties to the Acquisition Agreement have arrived at the acquisition cost of HK$2 per ton of coal (i.e. equivalent to a reduction of HK$2 per ton of shortfall from the reference reserve of 400 million tons) with reference to (i) the range of the acquisition costs of HK$4 and HK$12 per ton of coal of various coal mines paid by other listed issuer as announced in the first half of 2007; (ii) the prospect of the coal mining industry in the PRC; and (iii) the continual tension for global energy demand. The basis for arriving at the acquisition cost of HK$0.1 per ton of increment of reserve is determined by the parties with reference to the consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan (the calculation method of the consideration is set out in the sub-section headed "Lucky Dragon" under "Information on subject assets" in the Letter from the Board). Based on the factors above, the Directors are of the view that the Consideration is fair and reasonable.

Since Adjustment A can provide a mechanism for the Company to adjust the Consideration in the event of the reserve of Xi Meng Coal Mine being shortfall of 400 million tons (which was the preliminarily estimated and agreed by the parties to the Acquisition Agreement) and the incremental adjustment was consistent with the Lucky Dragon Agreement, we consider the Adjustment A was a normal commercial term and fair and reasonable so far as the Independent Shareholders are concerned.

Adjustment B

Pursuant to the Lucky Dragon Agreements dated 19 July 2007, Lucky Dragon has acquired the entire interest in Heng Yuan from certain Independent Third Parties and completion shall take place upon Lucky Dragon has settled all the consideration payable in relation to the acquisition. As at the Latest Practicable Date, the consideration payable by Lucky Dragon to such pre-existing shareholders of Heng Yuan was partially settled.

If any of such consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan (the calculation method of the consideration is set out in the sub-section headed "Lucky Dragon" under "Information on subject assets" in the Circular) and/or any premium for exploration right ("探礦權款價") payable by Heng Yuan to the relevant authorities of land and resources ("相關國土資源管理部門") and any exploration costs ("勘探費") payable by Heng Yuan to the PRC Exploration Company remains outstanding immediately before the Completion, the Purchaser shall:

(a) deduct such outstanding amounts from the cash consideration of HK$157 million and make direct payment of the same to the pre-existing shareholders of Heng Yuan, the relevant authorities of land and resources and/or the PRC Exploration Company; and

(b) pay the remaining balance to the Vendor by way of cashier orders.

In case that the cash consideration of HK$157 million is less than the amounts payable and remaining outstanding by Lucky Dragon, then such insufficient balance shall be deducted (i) firstly from the value of the Convertible Notes and (ii) secondly, if such amount exceeds the principal amount of the Convertible Notes, from the value of the Consideration Shares.

Pursuant to the general exploration stage exploration report of the Xi Meng Coal Mine issued by the PRC Exploration Company in October 2007, Xi Meng Coal Mine has a coal reserve of approximately 432.53 million tons and accordingly the total purchase consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan amounted to approximately RMB105.3 million. As at the Latest Practicable Date, Lucky Dragon has made payment of approximately RMB35.0 million to the pre-existing shareholders of Heng Yuan and has paid certain costs of approximately RMB6.0 million on behalf of the pre-existing shareholders of Heng Yuan (such amount shall be deducted from the consideration payable by Lucky Dragon in accordance with the terms of the Lucky Dragon Agreements). Accordingly, Lucky Dragon had outstanding capital commitment of approximately RMB64.3 million payable to the pre-existing shareholders of Heng Yuan as at the Latest Practicable Date. Furthermore, Heng Yuan has already settled all the outstanding exploration premium in the amount of approximately RMB1.7 million and part of the exploration costs of approximately RMB7.0 million to the PRC Exploration Company. As at the Latest Practicable Date, the outstanding exploration costs payable by Heng Yuan to the PRC Exploration Company amounted to approximately RMB2.3 million. The directors of Heng Yuan intend to settle such outstanding amount before the Completion.

Adjustment C

Pursuant to the Acquisition Agreement, the Vendor shall deliver to the Purchaser the Completion Accounts within two months after the Completion.

If the total liabilities as shown in the Completion Accounts is greater than the total liabilities as shown in the Management Accounts, then the Consideration shall be adjusted by deducting an amount equal to the difference between the total liabilities as shown in the Completion Accounts and the total liabilities as shown in the Management Accounts on a dollar to dollar basis and the Vendor shall set off such amount against the payment obligations of the Company under the Convertible Notes. Should such amount to be deducted exceed the principal amount of the Convertible Notes which remains outstanding at the time, the Vendor shall pay any shortfall to the Purchaser by cash within two business days after the production of the Completion Accounts. For the purpose of this Adjustment C, the amount of deduction shall not take into consideration the amount of (i) Indebtedness; (ii) unpaid consideration payable to the pre-existing shareholders of Heng Yuan; (iii) any exploration costs payable to the PRC Exploration Company; and (iv) any premium for exploration rights payable to the relevant authorities of land and resources, as the Indebtedness (i.e. item (i) above) will be assigned by the Vendor to the Purchaser pursuant to the Acquisition Agreement and Adjustment B has already provided for the deduction of the amount of unpaid consideration payable to the pre-existing shareholders of Heng Yuan (i.e. item (ii) above), any exploration costs payable to the PRC Exploration Company (i.e. item (iii) above) and any premium for exploration rights payable to the relevant authorities of land and resources (i.e. item (iv) above).

In respect of Adjustment C, the relevant adjustment cannot be determined until the Completion. However, for illustrative purposes only, according to Note### of Note (a) to the unaudited pro forma financial information of the Enlarged Group (for the acquisition of Lucky Dragon) set out in Appendix IV to the Circular, the difference between the total liabilities as shown in the Management Accounts and the total liabilities of Lucky Dragon Group as at 31 July 2007 (being the date on which the Acquisition is assumed to have been completed) is HK$3,090,000. If this is the case as at the date of the Completion, an amount of HK$3,090,000 will be set off on a dollar to dollar basis against the payment obligations of the Company under Convertible Notes.

We are of the view that the Adjustment B and Adjustment C were on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned as they had provided certain protections to the Company by limiting the unforeseeable costs and expenses incurred as a result of the Acquisition.

Undertaking by the Vendor

The Vendor has undertaken to the Purchaser:

a) to procure its beneficial owners and parties acting in concert with them shall not, in aggregate, hold more than 28% of the entire issued share capital of the Company as long as Gold Dynasty is a holder of the Convertible Notes; and

b) to retain for a period of one year from the Completion, the unencumbered beneficial ownership of (i) the Convertible Notes; or (ii) the Conversion Shares received from the conversion of such Convertible Notes; or (iii) the net proceeds from the disposal of such Conversion Shares, with aggregate value of not less than HK$70 million. If the aggregate value is equivalent to less than HK$70 million, the Vendor shall cover such shortfall within two business days by depositing additional cash on a dollar for dollar basis. For security purpose, the relevant (i) Convertible Notes; or (ii) Conversion Shares received from the conversion of such Convertible Notes; or (iii) net proceeds from the disposal of such Conversion Shares, shall be deposited with an escrow agent to be mutually agreed between the Vendor and the Purchaser.

Basis of the Consideration

As stated in the Letter from the Board, the Consideration was determined after arm's length negotiation with reference to, among other things, (i) the net asset value of Lucky Dragon and Heng Yuan; (ii) the preliminary estimated reserves of the Huanghuashan Coal Mine and the Xi Meng Coal Mine; (iii) the prospect of coal mining industry in the PRC; and (iv) the continuing tension for global energy demand. Taking into accounts of the above factors, the Directors are of the view that the Consideration is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

According to the accountants' report on Lucky Dragon and Heng Yuan in the Appendix II to the Circular, Lucky Dragon recorded deficiency in assets of approximately HK$30,000 and Heng Yuan recorded net assets of approximately HK$21.5 million as at 31 July 2007.

We consider the Consideration should be divided into two components, one for the Huanghuashan Coal Mine and the other for the Xi Meng Coal Mine. As discussed with the Directors, the consideration for the Huanghuashan Coal Mine and Xi Meng Coal Mine should be HK$40 million and HK$800 million (with reference to the preliminary estimation of the coal reserve in Xi Meng Coal Mine by the parties to the Acquisition Agreement), respectively. Based on the Directors' preliminary estimation of the respective coal reserves in these two mines as at the date of the Acquisition Agreement, the unit coal price for Huanghuashan Coal Mine and the Xi Meng Coal Mine were therefore approximately HK$7.38 per ton and HK$2.0 per ton, respectively.

In order to assess the fairness and reasonableness of the unit coal price acquired in these coal mines and the Consideration, we determine to compare the Acquisition with other similar transactions conducted by the Hong Kong listed companies. We have identified, on a best effort basis, a total of three transactions involving in the acquisition of coal mines in the PRC by companies (other than the Company) listed on the main board of the Stock Exchange (the "Comparable Acquisitions") from 1 January 2007 up to 16 August 2007 (being the date of the Acquisition Agreement). Details of our findings are summarized in the table below.

Name of the listed company (Stock Code)	Announcement date	Coal reserves acquired (approximately)	Consideration	Coal price per ton
Mongolia Energy Corporation Limited (Former name: New World Cyberbase Limited) (276)	30 May 2007	Exploration work in progress	US$1.00 as nominal value	HK$12.0 *(Note 1)*
Everbest Energy Holdings Company (578)	18 May 2007	5.32 million tons	RMB140 million	RMB 26.3 *(Note 2)*
Mongolia Energy Corporation Limited (Former name: New World Cyberbase Limited) (276)	7 February 2007	At least 300 million tons *(Note 3)*	HK$1,200 million	HK$4.0 *(Note 3)*

Notes:

1. Being the unit coal price acquired as stated in the announcement of Mongolia Energy Corporation Limited on 30 May 2007.

2. Being the consideration of the acquisitions over the coal reserves acquired.

3. Extracted from the announcement of Mongolia Energy Corporation Limited on 7 February 2007.

As set out in the above table, our findings show a wide spectrum of unit coal price in the Comparable Acquisitions ranging from HK$4.0 per ton to HK$26.3 per ton (assuming HK$1 = RMB1). Based on our review of the relevant announcements and circulars, we consider it is impracticable to compare the unit coal price represented by the coal mines acquisition of Everbest Energy Holding Company and Mongolia Energy Corporation Limited with those of the Company as there is limited information available (i.e. quality of coal) for our analysis.

We have also reviewed a valuation report (the "Valuation Report") prepared by RHL Appraisal Limited ("RHL"), an independent valuer, engaged by the Company for the valuation of the exploration rights of Xi Meng Coal Mine and mining rights of Huanghuashan Coal Mine as at 30 November 2007. It is stated on the RHL's report that the aggregate fair value of the exploration rights of Xi Meng Coal Mine and mining rights of Huanghuashan Coal Mine was approximately RMB3,577.0 million as at 30 November 2007.

We have discussed with RHL regarding, among other things, the assumptions, bases and methodologies adopted therein. We note that RHL has adopted the market approach to evaluate the fair value of the exploration rights of Xi Meng Coal Mine and mining rights of Huanghuashan Coal Mine. The market approach provides indication of value by comparing the subject assets to public tradable assets that have been traded in the market. This valuation methodology assumes that there would be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of the Company.

We were given to understand that RHL has determined the "enterprise value to sales" multiples of comparable companies and then applied those price multiples to the coal price, planned production capacity and capital expenditures of Xi Meng Coal Mine and Huanghuashan Coal Mine. Enterprise value is calculated as market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

Based on our review on the valuation report and discussion with RHL regarding, among other things, (i) the scope of work and assumptions of the valuation and (ii) the valuation basis and methodologies, we consider the basis, assumptions and methodologies adopted by RHL for the valuation of the exploration rights of Xi Meng Coal Mine and mining rights of Huanghuashan Coal Mine to be fair and reasonable and we agree with the conclusion drawn by RHL in its valuation report. Given the valuation for the exploration rights of Xi Meng Coal Mine and mining rights of Huanghuashan Coal Mine as at 30 November 2007 would be approximately RMB3,577.0 million, which was significantly higher than the Consideration of HK$840 million (subject to adjustment), we consider the Consideration is fair and reasonable so far as the Independent Shareholders are concerned.

Consideration Shares and Convertible Notes

Pursuant to the Acquisition Agreement, HK$680 million of the Consideration (subject to adjustments) shall be partially satisfied as to HK$420 million by way of allotment and issue of the Consideration Shares at HK$0.70 per new Share credited as fully paid and partially satisfied as to HK$260 million by way of the issue of Convertible Notes with a conversion price of HK$0.70 per Conversion Share. The Convertible Notes have a term of two years and carry no interest.

According to the Directors, the issue of the Consideration Shares and the Convertible Notes are the most cost efficient and beneficial way to financing the Acquisition as they saves the costs of borrowing and eliminate the burden of the Company arising through the usage of cash. We concur with the Directors' view in this regard as we consider the equity financing should incur lower cost than the debt financing in view of interest. Amongst the other equity financing methods, the issue of the Consideration Shares and Convertible Notes directly to the Vendor should be relatively time-saving as other financing methods may subject to a lengthy negotiation process for the underwriting and due diligence practice. We have also discussed with the management of the Company in relation to the latest working capital position of the Group and understand that there may be an adverse impact on the Group's liquidity if all part of the Consideration is satisfied by cash. Therefore, we concur with the Directors' view that the issue of the Consideration Shares is the most cost efficient and beneficial method to financing the Acquisition.

Issue price per Consideration Shares and conversion price of the Convertible Notes

The basis in respect of the issue price of HK$0.70 of the Consideration Shares and the conversion price of HK$0.70 of the Convertible Notes were determined between the Purchaser and the Vendor after arm's length negotiations with reference to, among other things, the closing price of the Shares ranging from HK$0.65 to HK$1.00 during the six-month period immediately prior to the publication of the Unusual Movements Announcement.

The issue price of HK$0.70 per Consideration Share and the conversion price of HK$0.70 per Conversion Share under the Convertible Notes represent:

(i) a discount of approximately 44.9% to the closing price of the Shares of HK$1.27 on the Last Trading Day;

(ii) a discount of approximately 48.1% to the 5-day average closing price of the Shares of approximately HK$1.35 in the last five consecutive trading days up to and including the Last Trading Date;

(iii) a discount of approximately 50.7% to the 10-day average closing price of the Shares of approximately HK$1.42 in the last ten consecutive trading days up to and including the Last Trading Date;

(iv) a discount of approximately 38.1% to the 30-day average closing price of the Shares of approximately HK$1.13 in the last thirty consecutive trading days up to and including the Last Trading Date;

(v) a discount of approximately 19.5% to the 90-day average closing price of the Shares of approximately HK$0.87 in the last ninety consecutive trading days up to and including the Last Trading Date;

(vi) a discount of approximately 7.9% to the 180-day average closing price of the Shares of approximately HK$0.76 in the last one hundred and eighty consecutive trading days up to and including the Last Trading Date;

(vii) a discount of approximately 25.5% to the closing price of the Shares of HK$0.94 as at the Latest Practicable Date; and

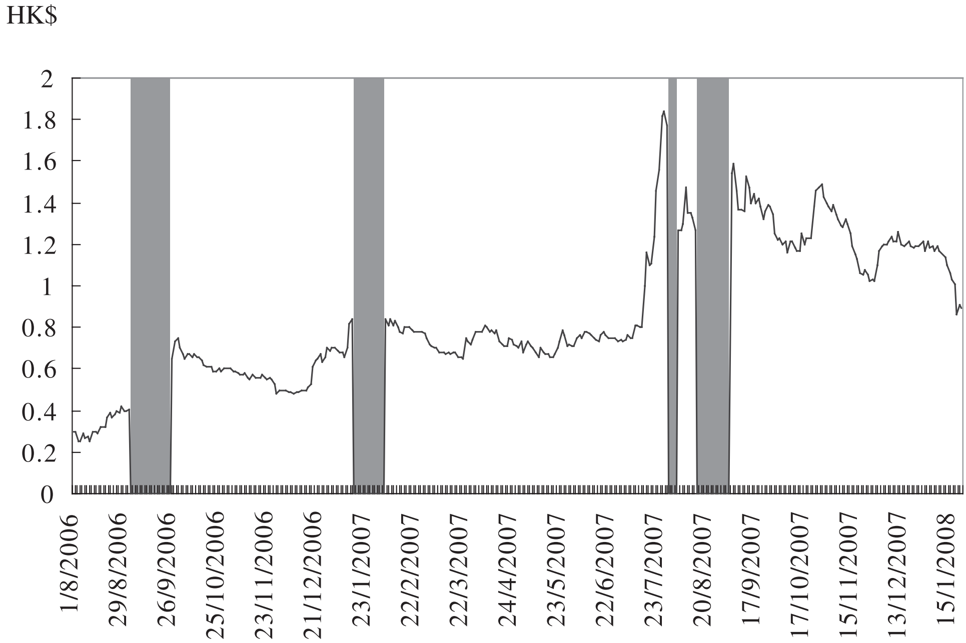
(viii) a premium of approximately 351.6% to the unaudited condensed consolidated net asset value per Share of approximately HK$0.155 per Share as at 30 June 2007 based on the 2007 interim report of the Company.

Assuming no adjustment has to be made to the Consideration, a total of 600,000,000 Consideration Shares will be issued upon Completion. The 600,000,000 Consideration Shares represents approximately 17.61% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 14.97% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

Assuming no adjustment has to be made to the Consideration, a total of 371,428,571 Conversion Shares will be issued in the event that the conversion rights attaching to the Convertible Notes were fully exercised, the 371,428,571 Conversion Shares represent approximately 10.90% of the existing issued share capital of the Company as at the Latest Practicable Date and approximately 8.48% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Conversion Shares.

Set out below is a graph which illustrates the daily historical closing prices of the Shares traded on the Stock Exchange from 1 August 2006 (being the first trading month of the twelve-month period prior to the signing of the Agreement) to the Latest Practicable Date (both dates inclusive, the "Relevant Period").

Issue Price of HK$0.7



Notes:

1. Trading of the Shares was suspended with effect from 4 September 2006 to 26 September 2006, pending the release of the announcement in relation to the acquisition of Mingrunfeng.

2. Trading of the Shares was suspended with effect from 17 January 2007 to 1 February 2007, pending the release of the announcement in relation to the acquisition of Mingrunfeng.

3. Trading of the Shares was suspended with effect from 31 July 2007 to 3 August 2007, pending the release of the announcement in relation to the MOU.

4. Trading of the Shares was suspended with effect from 16 August 2007 to 4 September 2007, pending the release of the announcement in relation to the Acquisition.

During the Relevant Period, the highest closing price and the lowest closing price of the Shares quoted on the Stock Exchange were HK$1.84 per Share on 27 July 2007 and HK$0.25 per Share on 3 August 2006, 4 August 2006 and 10 August 2006, respectively.

As illustrated in the above graph of the historical Share price performance, the Shares have been trading within HK$0.25 to HK$0.42 before the Company announced the acquisition of Mingrunfeng on 26 September 2006. Since then, the closing prices of the Shares surged and stayed in a range of HK$0.48 and HK$0.84 for the period from 27 September 2006 to 17 July 2007.

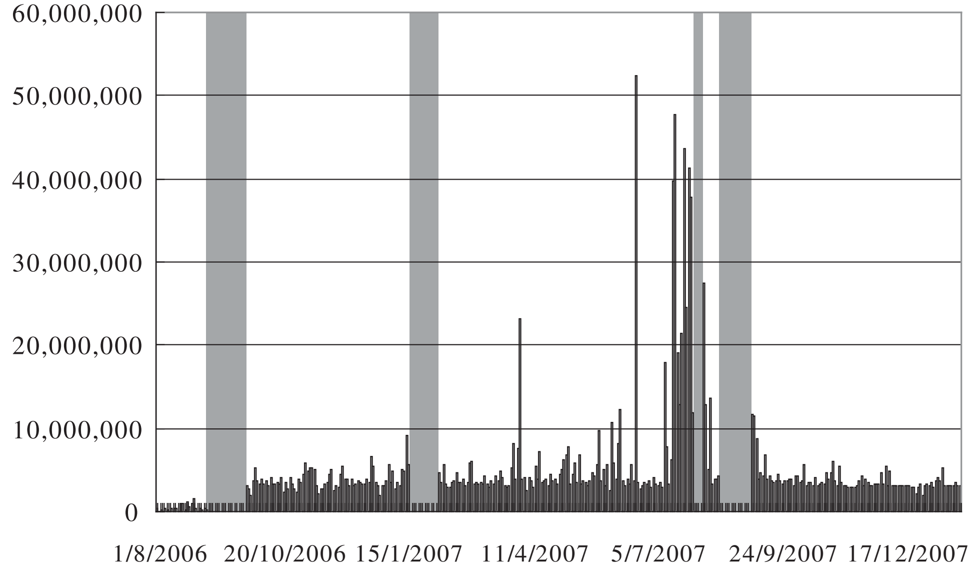
On 17 July 2007, the Company has published the Unusual Movements Announcement regarding the possible acquisitions of the equity interests of certain companies engaged in the energy and/or resources industries. The Directors are of the opinion that the rally in the share price of the Company only commences after the publication of the Unusual Movements Announcement. On 27 July 2007, the closing price of the Company shot up to HK$1.84, being the highest closing price during the Relevant Period.

After the publication of the Announcement, the share price of the Company fell by approximately 39.0% from HK$1.54 on 5 September 2007 to HK$0.94 as at the Latest Practicable Date.

However, the issue price of HK$0.70 per Consideration Share and the conversion price of HK$0.70 per Conversion Share still represented a substantial discount of approximately 44.9% to the closing price of the Shares of HK$1.27 on the Last Trading Day and a discount of approximately 25.5% to the closing price of the Shares of HK$0.94 as at the Latest Practicable Date.

We have also reviewed the trading volume of the Shares during the Relevant Period and set out below is our finding.

Trading volume (Number of Shares)



Month/period	Trading volume	Average daily trading volume	Percentage of average daily trading volume for the month to total number of issued Shares as at the Latest Practicable Date *(Note 1)*	Percentage of average daily trading volume for the month to total number of Shares held by the public as at the Latest Practicable Date *(Note 2)*
	(Shares)	*(Shares)*	*(%)*	*(%)*
2006				
August	10,557,000	459,000	0.0135	0.0335
September *(Note 3)*	8,161,000	2,040,250	0.0599	0.1491
October	69,727,900	3,486,395	0.1023	0.2548
November	86,418,000	3,928,091	0.1153	0.2871
December	69,052,500	3,634,342	0.1067	0.2656
2007				
January *(Note 4)*	51,950,000	4,722,727	0.1386	0.3451
February *(Note 4)*	64,212,300	4,013,269	0.1178	0.2933
March	108,445,000	4,929,318	0.1447	0.3602
April	72,538,400	4,029,911	0.1183	0.2945
May	103,140,000	4,911,429	0.1441	0.3589
June	144,647,000	7,232,350	0.2123	0.5285
July *(Note 5)*	355,041,900	17,752,095	0.5210	1.2973
August *(Note 5)* *(Note 6)*	74,610,000	9,326,250	0.2737	0.6815
September *(Note 6)*	89,777,000	5,281,000	0.1550	0.3859
October	82,475,000	3,927,381	0.1153	0.2870
November	76,320,000	3,469,091	0.1018	0.2535
December	61,140,000	3,217,895	0.0944	0.2352
2008				
January (up to and including the Latest Practicable Date)	64,359,200	3,387,326	0.0994	0.2475

Source: The website of the Stock Exchange (www.hkex.com.hk)

Notes:

1. It is calculated based on 3,407,289,800 Shares in issue as at Latest Practicable Date.

2. It is calculated based on 1,368,419,800 Shares held in public hands as at the Latest Practicable Date.

3. Trading of the Shares was suspended with effect from 4 September 2006 to 26 September 2006, pending the release of the announcement in relation to the acquisition of Mingrunfeng.

4. Trading of the Shares was suspended with effect from 17 January 2007 to 1 February 2007, pending the release of the announcement in relation to the acquisition of Mingrunfeng.

5. Trading of the Shares was suspended with effect from 31 July 2007 to 3 August 2007, pending the release of the announcement in relation to the MOU.

6. Trading of the Shares was suspended with effect from 16 August 2007 to 4 September 2007, pending the release of the announcement in relation to the Acquisition.

As illustrated in the table above, the trading volume of the Shares on the Stock Exchange was very thin during the Relevant Period being in a range of approximately 0.014% to 0.52% of the total issued share capital of the Company or of approximately 0.0335% to 1.30% of the Shares held by the public.

Given the low liquidity of the Shares in the open market during the Relevant Period, we consider the historical price performance of the Shares do not serve a meaningful reference to assess whether the issue price of HK$0.70 per Consideration Share and the conversion price of HK$0.70 per Conversion Share is fair and reasonable.

Comparison with other consideration issue

In assessing the fairness and reasonableness of the issue price of HK$0.70 per Consideration Share, we have identified, on a best effort basis, the transactions (the "Consideration Shares Comparables") announced during the period from 16 July 2007 up to 16 August 2007 (being the date of the Acquisition Agreement on which the issue price of HK$0.70 is determined) by companies listed on the main board of the Stock Exchange involving the issue of shares to satisfy all or part of the consideration for the relevant acquisitions. We believe that the terms of issue of consideration shares by the Consideration Shares Comparables can reflect the prevailing market sentiments in the period under review. Therefore, we consider the review on the Consideration Shares

Comparables is appropriate in assessing the fairness and reasonableness of the issue price of the Consideration Shares. The table below demonstrates our relevant findings:

Company name (Stock Code)	Date of announcement	Issue price *HK$*	Premium/(discount) of issue price over/to the closing price as at the last trading day prior to the date of announcement *%*	Premium/(discount) of issue price over/to the average closing price for the last five trading days prior to the date of announcement *%*
Sino-Tech International Holding Limited (724)	16 August 2007	5.00	(1.77)	14.94
Orient Resources Group Company Limited (467)	15 August 2007	1.61	(8.52)	(17.00)
Li & Fung Limited (494)	15 August 2007	28.07	12.51	5.88
Wo Kee Hong (Holdings) Limited (720)	14 August 2007	1.1514	(6.39)	(5.00)
MACRO-LINK International Holdings Limited (472)	7 August 2007	0.27	(70.33)	(66.75)
Vitop Bioenergy Holdings Limited (1178)	6 August 2007	0.35	(2.78)	(6.17)
Extrawell Pharmaceutical Holdings Limited (858)	1 August 2007	2.563	(15.69)	(6.66)
Greater China Holdings Limited (431)	31 July 2007	0.476	(0.53)	(0.53)
Culturecom Holdings Limited (343)	30 July 2007	0.213	(10.13)	(14.53)
Fortune Telecom Holdings Limited (110)	27 July 2007	2.1905	(21.77)	(3.33)
Uni-Bio Science Group Limited (690)	24 July 2007	5.5	(17.42)	(8.49)
Aurora Global Investment Holdings Limited (353)	20 July 2007	0.5	(41.18)	(41.18)
Highest			**12.51**	**14.94**
Lowest			**(70.33)**	**(66.75)**
Mean			**(15.33)**	**(12.40)**
The Company (381)	**4 September 2007**		**(44.9)**	**(48.1)**

Source: The website of the Stock Exchange (www.hkex.com.hk)

As shown in the above table, we note that the premium/discount of issue price to the closing price of the Consideration Shares Comparables as at the last trading day range from a discount of approximately 70.33% to a premium of approximately 12.51% with mean of a discount of approximately 15.33%. The discount of approximately 44.9% represented by the issue price of the Consideration Share to the closing price per Share on the Last Trading day is within the said range.

The premium/discount of issue price to the average closing price for the last five trading days of the Consideration Shares Comparables range from a discount of approximately 66.75% to a premium of approximately 14.94% with mean of a discount of approximately 12.40%. The discount of approximately 48.1% represented by the issue price of the Consideration Share to the closing price per Share on the past five trading days up the Last Trading day falls within the range of the Consideration Shares Comparables.

Based on the above comparison with the Consideration Shares Comparables, we are of the view that the issue price of the Consideration Share is fair and reasonable so far as the Independent Shareholders are concerned.

Comparison with other issue of convertible note

In assessing the fairness and reasonableness of the terms of the Convertible Note (including the conversion price of HK$0.70), we have identified, on a best effort basis, the transactions (the "CN Comparables") announced during the period from 16 July 2007 up to 16 August 2007 (being the date of the Acquisition Agreement on which the terms of Convertible Note are determined) by companies listed on the main board of the Stock Exchange involving the issue of convertible note to satisfy all or part of the consideration for the relevant acquisitions. We believe that the terms of convertible note by the CN Comparables can reflect the prevailing market sentiments in the period under review. Therefore, we consider the review on the CN Comparables is appropriate in assessing the fairness and reasonableness of the terms of the Convertible Note (including the conversion price of HK$0.70). The table below demonstrates our relevant findings:

Name of company (Stock Code)	Date of announcement	Principal amount	Maturity	Coupon Rate	Premium/(discount) of the initial conversion price of the convertible note over/to the closing price as at the last trading day prior to the date of announcement	Premium/(discount) of the initial conversion price of the convertible note over/to the average closing price for the last five trading days prior to the date of announcement
		HK$' million	*Year(s)*	*%*	*%*	*%*
Goldbond Group Holdings Limited (172)	16 August 2007	135	3	0	9.10	6.50
China Rich Holdings Limited (1191)	15 August 2007	384	5	0	(56.04)	(57.17)
Riche Multi-Media Holdings Limited (764)	8 August 2007	447	10	0	29.87	21.95
Midas International Holdings Limited (1172)	1 August 2007	130	3	1.5%	(6.5)	4.6
Venture International Investment Holdings Limited (61)	25 July 2007	120	3	0	Not applicable *(Note)*	Note applicable *(Note)*
Jutal Offshore Oil Services Limited (3303)	23 July 2007	68	1	0	1.02	10.49
Aurora Global Investment Holdings Limited (353)	20 July 2007	765	5	0	(29.41)	(29.41)
Maximum			**10**	**1.5**	**29.87**	**21.95**
Minimum			**1**	**0**	**(56.04)**	**(57.17)**
Mean			**4.3**	**0.2**	**(8.66)**	**(7.17)**
The Company	**4 September 2007**	**260**	**2**	**0**	**(44.9)**	**(48.1)**

Source: The website of the Stock Exchange (www.hkex.com.hk)

Note: The convertible price of the convertible note will be at 5% premium over the average closing price of last five trading days up to and including the date of the completion of the Acquisition.

As shown in the above table, we note that the discounts of the conversion price of the Convertible Notes to the closing price of the Shares on the Last Trading Day and to the average closing price of the Share on the last five trading days up to and including the Last Trading Day fall at the low end of the range of those of CN Comparables. The maturity period of the Convertible Note also falls within the range of the maturity period of the CN comparables but has a shorter maturity than the average of them. The CN Comparables carried an annual coupon rate of 0% to 1.5% with a mean of 0.2%. The zero coupon rate of the Convertible Note is therefore at the minimum of the market range of the CN Comparables.

In view of above, we are of the view that the terms of the Convertible Note (including the conversion price of HK$0.70) are fair and reasonable so far as the Independent Shareholders are concerned.

3. Dilution to the shareholdings of the Independent Shareholders

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and the effects of the Acquisition assuming that no adjustment has to be made to the Consideration.

	As at the Latest Practicable Date		**Immediately after Completion and issue of Consideration shares but assuming no Convertible Notes are exercised**		**Immediately after Completion and issue of Consideration Shares and assuming the Convertible Notes are fully exercised** *(note 3)*	
	Number of issued Shares	*Approximate percentage*	*Number of issued Shares*	*Approximate percentage*	*Number of issued Shares*	*Approximate percentage*
Legend Win Profits Limited *(Note 1)*	1,567,500,000	46.01%	1,567,500,000	39.12%	1,567,500,000	35.80%
Mr. Yu *(Note 2)*	344,500,000	10.11%	344,500,000	8.60%	344,500,000	7.87%
Ms. Kau *(Note 2)*	126,870,000	3.72%	126,870,000	3.17%	126,870,000	2.90%
The Vendor	0	0.00%	600,000,000	14.97%	971,428,571	22.18%
Other public Shareholders	1,368,419,800	40.16%	1,368,419,800	34.14%	1,368,419,800	31.25%
Total	3,407,289,800	100.00%	4,007,289,800	100.00%	4,378,718,371	100.00%

Notes:

1. Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa, all being executive Directors, and Hui's K.K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26% respectively. Hui's K.K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa, all being executive Directors are the registered members and directors of Hui's K.K. Foundation Limited.

2. Mr. Yu is a director and a shareholder of the Vendor. Ms. Kau is a shareholder of the Vendor. Pursuant to the Acquisition Agreement, the Vendor has undertaken to procure its beneficial owners and parties acting in concert with them shall not, in aggregate, hold more than 28% of the entire issued share capital of the Company as long as the Vendor is a holder of the Convertible Notes. The Vendor, Mr. Yu, Ms. Kau and Mr. Chung Chi Shing are presumed to be parties acting in concert with each other under the Takeovers Code by virtue of the respective shareholding interests of Mr. Yu, Ms. Kau and Mr. Chung Chi Shing in the Vendor.

3. This column is for illustrative purpose. Pursuant to the terms of the Acquisition Agreement, the Company will not issue any Conversion Shares to the Vendor if upon the issue of such Conversion Shares will result in (i) an insufficiency of public float of Shares as required by the Listing Rules or (ii) shareholding of the Vendor and/or parties acting in concert with it holding more than 28% of the entire issued share capital of the Company.

The Company will comply with the relevant requirements of the Takeovers Code if the Convertible Notes are exercised. As at the Latest Practicable Date, save for the options which were granted to the Group's employees conferring rights to subscribe for 67,409,600 new Shares, the Company has no outstanding options, warrants or convertible instruments to subscribe for any Shares.

The above table illustrates that the shareholding interest of the public shareholders would reduce from approximately 40.16% to approximately 31.25% immediately after the Completion and issue of the Consideration Shares and assuming the Convertible Notes are fully exercised.

Having considered the Acquisitions will further create strategic values for the Company by increasing the coal reserves and broadening the geological strength of its coal business, we consider that such dilution on the shareholding interests of the existing public Shareholders is acceptable.

4. Risks

We would like to remind the Independent Shareholders that there are uncertainties associated with the Acquisition notwithstanding the potential benefits. Independent Shareholders are advised to pay attention on the paragraph headed "Risks associated with the Acquisition" in the Letter from the Board and the major issues raised by the Mining Experts as set out in its respective technical reports in the Circular.

In addition, we consider that there are also uncertainties and business risks associated with the Acquisition including (i) the commercial marketability of the coal and the time as to when the coal mine will commence operation; and (ii) the possible impact of investment loss to the Group in the event of failure to develop the coal mine or an ill-investment decision which led to financial loss to the Group.

The coal mine may or may not perform as projected, which will significantly affect the Group's financial performance. The Acquisition will, therefore, result in a significant change in the risk profile of the Group's businesses, which may or may not accord with the risk/return preferences of individual shareholders.

5. Financial effects of the Acquisition on the Group

The following sets out the impact of the Acquisition on the financial position of the Group:

(a) Net asset value

As set out in the unaudited pro forma combined balance sheet of the Enlarged Group in the Appendix IV to the Circular, the unaudited pro forma net assets of the Group after the acquisition of Luck Dragon and Heng Yuan would be increased by approximately HK$376.7 million to approximately HK$525.0 million assuming completion of the Acquisition had taken place on 31 December 2006. According to the Directors, such increase in pro forma net assets was mainly due to the net of (i) the adjustment on intangible assets of the mining rights and exploration and evaluation assets; and (ii) the increase in reserves of the Enlarged Group as result of issue of Consideration Shares as Consideration.

(b) Profit and loss account

As set out in the Letter from the Board and the unaudited pro forma combined income statement of the Enlarged Group in the Appendix IV to the Circular, assuming the Completion of the Acquisition had taken place on 1 January 2006, the Acquisition would reduce the unaudited pro forma net profit of the Group by approximately HK$0.4 million.

(c) Gearing

As set out in the unaudited pro forma combined balance sheet of the Enlarged Group in the Appendix IV to the Circular, the gearing ratio of the Group was approximately 25.8% (total liabilities/total assets) as at 31 December 2006. The gearing ratio of the Enlarged Group would increase to approximately 39.5% as a result of the Acquisition. Such increase in the gearing ratio was due to substantial amount of debts was recorded for the payment of the Consideration.

(d) Working capital

As set out in the unaudited pro forma combined balance sheet of the Enlarged Group in the Appendix IV to the Circular, the Enlarged Group will record net current liabilities of approximately HK$79.4 million as a result of the Acquisition assuming completion of the Acquisition had taken place on 31 December 2006.

As stated in the paragraph headed "Working Capital" under the section headed "Financial Information on the Group" in the Appendix I of the Circular, the Enlarged Group will require a total additional funds of approximately HK$906 million for the two-year period following the issue of the Circular. Such funding requirement include (i) approximately HK$547 million (equivalent to approximately RMB520 million) for the construction of the Xi Meng Coal Mine and the application of relevant licenses and permits for coal production, ii) approximately HK$76 million (equivalent to approximately RMB72 million) for improvement project of the production facilities of the Huanghuashan Coal Mine, iii) approximately HK157 million for payment of the remaining balance of the cash portion of the Consideration; and iv) approximately HK$126 million (equivalent to approximately RMB120 million) for the construction of the coal mine of Mingrunfeng. The Group's toy and gift business will not have any material funding requirement for the two-year period following the issue of the Circular.

The Directors estimated that, for the two years following the issue of the Circular, the Group will have (i) cash inflows of approximately HK$1,796 million arising from the sales of toys and coal and the additional funds to be raised and (ii) cash outflows of approximately HK$1,430 million arising from the operations of the toys and coal businesses, capital expenditure incurred for the construction of the coal mines and payment for the remaining balance of the cash component of the Consideration. Accordingly, the Group will have net cash inflow of approximately HK$366 million for the two years following the issue of the Circular.

Subject to the successful raising of approximately HK$906 million by equity and/or debt financing and taking into the account the financial resources available to the Enlarged Group, including internally generated funds, the available banking facilities and future fund raising of approximately HK$906 million, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements for at least the next 24 months from the date of publication of the Circular in the absence of unforeseeable circumstances.

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The Directors plan to finance the future funding requirements of approximately HK$906 million by (i) issue of new shares, (ii) issue of convertible bonds, (iii) bank and other borrowings or (iv) a combination of the above.

Nevertheless, we consider the substantial amounts of capital investments for Huanghuashan Coal Mine and Xi Meng Coal Mine will have a negative impact on the liquidity of Group.

Concluding from the above, we note that the Acquisition will have negative effects to the Group's leverage position and liquidity. However, taking into account of the future prospects of the coal mining business in the PRC and the opportunity for the Company to increase its coal reserves by the reasonable amounts of the Consideration paid, we are still of the view the Acquisition is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors, in particular:

- the sustained competitive environment of toy and gift market which has hindered the Group's financial performance in the previous years;
- the positive prospects of the mining business in the PRC;
- the Acquisitions represented an opportunity for the Company to increase its coal reserves and broaden the geological strength of its coal business;
- the Consideration is fair and reasonable;
- the Adjustment A, B and C provided reasonable protections to the Company by limiting the unforeseeable costs and expenses incurred as a result of the Acquisition;
- the terms of the Consideration Shares and Convertible Notes (including their respective issue price and conversion price) are fair and reasonable;
- the potential dilution effects on the shareholding interests of the existing public Shareholders is acceptable;
- we have considered the risk factors associated with the Acquisition as set out in the Letter from the Board and have reviewed the PRC legal opinion that Heng Yuan does not have any major legal obstacles for (i) obtaining the extension of the mining right for Huanghuashan Coal Mine and (ii) the renewal of the exploration right and obtaining the mining right for Xi Meng Coal Mine; and
- the risks factors in relation to the environmental and occupational health and safety issues raised by the Mining Experts were manageable by the Directors as elaborated in the Letter from the Board and the above paragraph headed "Xi Meng Coal Mine"

we are of the opinion that the terms of the Acquisition Agreement are on the normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Shareholders, and also recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions approving the Acquisition and the transaction contemplated thereunder at the EGM.

Irrespective of the above, we would remind the Independent Shareholders that there are uncertainties associated with the Acquisition notwithstanding the potential benefits. The coal mine may or may not perform as projected, which will significantly affect the Group's financial performance. The Acquisition will, therefore, result in a significant change in the risk profile of the Group's businesses, which may or may not accord with the risk/return preferences of individual shareholders.

Yours faithfully,
For and on behalf of
Grand Cathay Securities (Hong Kong) Limited

Kim Chan	**Kevin Chan**
Director	*Director*

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

Set out below is a summary of the audited consolidated financial statements of the Group for each of the three years ended 31 December 2006 extracted from the 2005 and 2006 annual reports of the Company. Grant Thornton, being the Company's auditor, has not issued any qualified or modified opinion on the Group's financial statements for the three preceding financial years.

Consolidated Income Statement

	Year ended 31 December 2006 (audited) *HK$'000*	Year ended 31 December 2005 (audited) *HK$'000*	Year ended 31 December 2004 (restated) *HK$'000*
Revenue	96,578	67,528	80,674
Cost of sales	(61,046)	(44,705)	(59,715)
Gross profit	35,532	22,823	20,959
Other income	5,297	6,631	3,286
Distribution costs	(9,197)	(6,601)	(11,889)
Administrative expenses	(25,500)	(17,709)	(19,361)
Other operating expenses	(1,024)	(771)	(1,626)
Operating profit/(loss)	5,108	4,373	(8,631)
Finance costs	(2,576)	(3,533)	(3,549)
Share of profit/(loss) of a jointly controlled entity	45	(869)	(487)
Share of (loss)/profit of an associate	–	(335)	(65)
Loss before income tax	2,577	(364)	(12,732)
Income tax (expense)/credit	(1,437)	323	790
Profit/(Loss) for the year	1,140	(41)	(11,942)
Attributable to:			
Equity holders of the Company	1,103	(41)	(11,888)
Minority interests	37	–	(54)
	1,140	(41)	(11,942)
Proposed final dividend	299	–	–
	HK cent	*HK cent*	*HK cent*
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the year			
– Basic	0.0382	(0.0015)	(0.4218)
– Diluted	0.377	N/A	N/A

Consolidated Balance Sheet

	As at 31 December 2006 (audited) *HK$'000*	As at 31 December 2005 (audited) *HK$'000*	As at 31 December 2004 (restated) *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	63,877	66,369	60,318
Prepaid land lease payments	6,213	6,118	6,270
Investment property	400	400	400
Interest in an associate	–	–	335
Interest in a jointly controlled entity	623	–	27,550
Amount due from a related company	–	2,619	–
Intangible assets	2,424	–	–
Deposit for acquisition of a company	15,000	–	–
Deferred tax assets	551	1,987	2,219
	89,088	77,493	97,092
Current assets			
Inventories	10,227	7,609	7,059
Trade and bills receivables	9,105	12,749	1,379
Prepayment, deposits and other receivables	1,716	1,796	2,282
Amount due from a jointly controlled entity	1,097	–	–
Amount due from an associate	–	–	1,487
Amount due from a related company	2,900	5,513	–
Tax recoverable	153	126	28
Financial assets at fair value through profit or loss/Short term investments	286	286	306
Cash at banks and in hand	85,224	48,034	56,616
	110,708	76,113	69,157
Current liabilities			
Trade and bills payables	7,632	10,858	7,179
Other payables and accruals	4,902	5,655	7,585
Capital contribution payable to a jointly controlled entity	–	–	13,983
Provision for tax	287	263	3,546
Borrowings	33,066	30,650	30,246
	45,887	47,426	62,539
Net current assets	64,821	28,687	6,618
Total assets less current liabilities	153,909	106,180	103,710
Non-current liabilities			
Borrowings	1,766	2,251	2,819
Deferred tax liabilities	3,829	3,764	3,726
	5,595	6,015	6,545
Net assets	148,314	100,165	97,165
EQUITY			
Equity attributable to Company's equity holders			
Share capital	59,773	44,277	44,277
Reserves	86,945	55,888	52,888
Proposed final dividend	299	–	–
	147,017	100,165	97,165
Minority Interest	1,297	–	–
Total equity	148,314	100,165	97,165

Consolidated Cash Flow Statement

	Year ended 31 December 2006 (audited) *HK$'000*	Year ended 31 December 2005 (audited) *HK$'000*	Year ended 31 December 2004 (restated) *HK$'000*
Cash flows from operating activities			
Profit/(Loss) before income tax	2,577	(364)	(12,732)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment	6,654	6,199	6,717
Amortisation of prepaid land lease payments	147	152	152
Amortisation of goodwill	–	–	269
Impairment loss on goodwill	–	261	–
Amortisation of intangible assets	190	–	–
Amortisation of production and distribution rights	–	–	1,000
Impairment loss on production and distribution rights	–	–	3,667
Provision for slow moving inventories	804	3,131	2,191
Bad debts written-off	376	162	49
Write off of deposits received	(912)	–	–
Revaluation surplus on leasehold land and buildings	(312)	(147)	(307)
Loss on disposal of			
– investment properties	–	–	440
– other property, plant and equipment	–	–	121
Write off of property, plant and equipment	1	29	25
Gain on disposal of property, plant and equipment	(9)	–	–
Share of loss of an associate	–	335	65
Share of (profit)/loss of a jointly controlled entity	(45)	869	487
Loss/(Gain) on disposal of subsidiaries	327	(2,740)	(69)
Loss on dissolution of a subsidiary	–	–	448
Share-based compensation expenses			
– employee compensation expenses	4,614	–	–
– consultancy fee	205	–	–
Interest expenses	2,576	2,309	2,379
Interest income	(1,158)	(344)	(242)
Operating profit before working capital changes	16,035	9,852	4,660
Increase in inventories	(3,422)	(3,681)	3,343
Decrease/(Increase) in trade and bills receivables	3,268	(10,724)	4,937
(Increase)/Decrease in prepayment, deposits and other receivables	(247)	486	1,009
Increase in amount due from an associate	–	(1,362)	(325)
Increase in amount due from a jointly-controlled entity	(1,097)	–	–
Increase/(Decrease) in trust receipt loans	1,798	(1,193)	715
(Decrease)/Increase in trade and bills payables	(3,226)	3,679	(818)
Increase in other payables and accruals	159	166	841
Cash generated from/(used in) operations	13,268	(2,777)	14,362

Consolidated Cash Flow Statement

	Year ended 31 December 2006 (audited) *HK$'000*	Year ended 31 December 2005 (audited) *HK$'000*	Year ended 31 December 2004 (Restated) *HK$'000*
Cash generated from/(used in) operations	13,268	(2,777)	14,362
Interest paid	(2,561)	(2,279)	(2,285)
Interest paid in finance lease payments	(15)	(30)	(94)
Income tax refunded	–	37	–
Income tax paid	(74)	(96)	(113)
Net cash generated from/(used in) operating activities	10,618	(5,145)	11,870
Cash flows from investing activities			
Payments to acquire property, plant and equipment	(1,184)	(10,911)	(5,189)
Proceeds from disposal of property, plant and equipment	34	–	1,288
Proceeds from disposal of investment properties	–	–	4,077
Decrease in financial assets at fair value through profit and loss	–	20	10,737
Payments to acquire intangible assets	(2,614)	–	–
Capital contribution to jointly controlled entities	(578)	–	(14,054)
Acquisition of a subsidiary, net of cash acquired	–	529	–
Proceeds from disposal of subsidiaries, net of cash disposed of	–	2,041	91
Decrease in amount due from a related company	5,232	2,900	–
Deposit paid for acquisition of a company	(15,000)	–	–
Interest received	1,158	344	242
Net cash used in investing activities	(12,952)	(5,077)	(2,808)
Cash flows from financing activities			
Proceeds from open offer of shares issued	38,742	–	–
Payment in relation to the cost of open offer of shares issued	(1,498)	–	–
New bank loans	26,522	28,368	15,888
Repayment of bank loans	(26,293)	(26,699)	(16,841)
Repayment of capital element of finance lease payables	(96)	(640)	(640)
Capital contribution from minority interests	1,260	–	–
Net cash generated from/(used in) financing activities	38,637	1,029	(1,593)
Net increase/(decrease) in cash at banks and in hand	36,303	(9,193)	7,469
Cash at banks and in hand at 1 January	48,034	56,616	49,147
Effect of foreign exchange rate changes, on cash held	887	611	–
Cash at banks and in hand at 31 December	85,224	48,034	56,616

Consolidated Statement of Changes in Equity

	Equity attributable to equity holders of the Company				Proposed final dividend	Minority interests	Total equity
	Share capital	Other Reserves *(note 32)*	Retained profits	Total			
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004, as previously reported as equity	44,277	63,524	48,981	156,782	–	–	156,782
At 1 January 2004, as previously separately reported as minority interests	–	–	–	–	–	54	54
Effect of initial adoption of HKAS17	–	(53,250)	4,091	(49,159)	–	–	(49,159)
Effect of initial adoption of HKAS40 & HK(SIC) Int21	–	(837)	280	(557)	–	–	(557)
At 1 January 2004, as restated	44,277	9,437	53,352	107,066	–	54	107,120
Revaluation surplus on properties	–	2,003	–	2,003	–	–	2,003
Appropriation of statutory surplus reserve	–	133	(133)	–	–	–	–
Deferred tax liability arising on revaluation of properties	–	(16)	–	(16)	–	–	(16)
Net income/(expense) recognised directly in equity	–	2,120	(133)	1,987	–	–	1,987
Loss for the year	–	–	(11,888)	(11,888)	–	(54)	(11,942)
Total recognised income and expense for the year	–	2,120	(12,021)	(9,901)	–	(54)	(9,955)
Balance at 31 December 2004, as restated	**44,277**	**11,557**	**41,331**	**97,165**	**–**	**–**	**97,165**
Balance at 31 December 2004, as previously reported	44,277	66,635	35,576	146,488	–	–	146,488
Effect of initial adoption of HKAS17	–	(54,241)	5,475	48,766	–	–	(48,766)
Effect of initial adoption of HKAS40 & HK(SIC) Int21	–	(837)	280	(557)	–	–	(557)
At 31 December 2004 and 1 January 2005	44,277	11,557	41,331	97,165	–	–	97,165

	Equity attributable to equity holders of the Company				final dividend	Minority interests	Total equity
	Share capital	**Other Reserves** *(note 32)*	**Retained profits**	**Total**			
	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)	(audited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2004 and 1 January 2005	44,277	11,557	41,331	97,165	–	–	97,165
Revaluation surplus on properties	–	1,841	–	1,841	–	–	1,841
Deferred tax liability arising on revaluation of properties	–	(202)	–	(202)	–	–	(202)
Translation adjustments	–	1,402	–	1,402	–	–	1,402
Net income recognised directly in equity	–	3,041	–	3,041	–	–	3,041
Loss for the year	–	–	(41)	(41)	–	–	(41)
Total recognised income and expense for the year	–	3,041	(41)	3,000	–	–	3,000
Appropriation of statutory surplus reserve	–	386	(386)	–	–	–	–
Reserve transferred to retained profits upon disposal of a subsidiary	–	(389)	389	–	–	–	–
At 31 December 2005 and 1 January 2006	44,277	14,595	41,293	100,165	–	–	100,165
Revaluation surplus on properties	–	1,064	–	1,064	–	–	1,064
Deferred tax liability arising on revaluation of properties	–	(111)	–	(111)		–	(111)
Translation adjustments	–	2,733	–	2,733	–	–	2,733
Net income recognised directly in equity	–	3,686	–	3,686	–	–	3,686
Profit for the year	–	–	1,103	1,103	–	37	1,140
Total recognised income and expense for the year	–	3,686	1,103	4,789	–	37	4,826
Acquisition of a subsidiary	–	–	–	–	–	1,260	1,260
Proceeds from open offer of new shares issued, net	15,496	21,748	–	37,244	–	–	37,244
Share-based compensation	–	4,819	–	4,819	–	–	4,819
2006 proposed final dividend	–	–	(299)	(299)	299	–	–
At 31 December 2006	59,773	44,848	42,097	146,718	299	1,297	148,314

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited consolidated income statements of the Company for each of the two years ended 31 December 2006, the audited consolidated balance sheets of the Company as at 31 December 2006 and 2005, the audited balance sheets of the Company as at 31 December 2006 and 2005, and the audited consolidated cash flow statements of the Company for each of the two years ended 31 December 2006 and 2005, the audited consolidated statements of changes in equity of the Company for each of the two years ended 31 December 2006 and 2005 together with accompanying notes extracted from the 2005 annual report of the Company:

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Revenue	5	96,578	67,528
Cost of sales		(61,046)	(44,705)
Gross profit		35,532	22,823
Other revenue	7	5,297	6,631
Distribution costs		(9,197)	(6,601)
Administrative expenses		(25,500)	(17,709)
Other operating expenses		(1,024)	(771)
Operating profit	8	5,108	4,373
Finance costs	9	(2,576)	(3,533)
Share of profit/(loss) of a jointly controlled entity	21	45	(869)
Share of loss of an associate	20	–	(335)
Profit/(Loss) before income tax		2,577	(364)
Income tax (expense)/credit	10	(1,437)	323
Profit/(Loss) for the year		1,140	(41)
Attributable to:			
Equity holders of the Company	11	1,103	(41)
Minority interests		37	–
Profit/(Loss) for the year		1,140	(41)
Proposed final dividend	12	299	–
		HK cent	*HK cent* (Restated)
Earnings/(Loss) per share for profit/(loss) attributable to the equity holders of the Company during the year	13		
– Basic		0.0382	(0.0015)
– Diluted		0.0377	N/A

Consolidated Balance Sheet

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	16	63,877	66,369
Prepaid land lease payments	17	6,213	6,118
Investment property	18	400	400
Interest in an associate	20	–	–
Interest in a jointly controlled entity	21	623	–
Amount due from a related company	22	–	2,619
Intangible assets	23	2,424	–
Deposit for acquisition of a company	36	15,000	–
Deferred tax assets	33	551	1,987
		89,088	77,493
Current assets			
Inventories	24	10,227	7,609
Trade and bills receivables	25	9,105	12,749
Prepayment, deposits and other receivables	25	1,716	1,796
Amount due from a jointly controlled entity	21	1,097	–
Amount due from a related company	22	2,900	5,513
Tax recoverable		153	126
Financial assets at fair value through profit or loss	26	286	286
Cash at banks and in hand	27	85,224	48,034
		110,708	76,113
Current liabilities			
Trade and bills payables	28	7,632	10,858
Other payables and accruals	28	4,902	5,655
Provision for tax		287	263
Borrowings	29	33,066	30,650
		45,887	47,426
Net current assets		64,821	28,687
Total assets less current liabilities		153,909	106,180
Non-current liabilities			
Borrowings	29	1,766	2,251
Deferred tax liabilities	33	3,829	3,764
		5,595	6,015
Net assets		148,314	100,165
EQUITY			
Equity attributable to Company's equity holders			
Share capital	30	59,773	44,277
Reserves	32	86,945	55,888
Proposed final dividend	12	299	–
		147,017	100,165
Minority interests		1,297	–
Total equity		148,314	100,165

Balance Sheet

As at 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	19	105,080	100,261
Current assets			
Prepayment and other receivables		216	–
Amount due from a subsidiary	19	110,183	46,743
Cash at banks		12,736	25
		123,135	46,768
Current liabilities			
Other payables and accruals		356	56
Net current assets		122,779	46,712
Total assets less current liabilities		227,859	146,973
EQUITY			
Share capital	30	59,773	44,277
Reserves	32	167,787	102,696
Proposed final dividend	12	299	–
Total equity		227,859	146,973

Consolidated Cash Flow Statement
For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Profit/(Loss) before income tax		2,577	(364)
Adjustments for:			
Depreciation and amortisation of property, plant and equipment		6,654	6,199
Amortisation of prepaid land lease payments		147	152
Impairment loss on goodwill		–	261
Amortisation of intangible assets		190	–
Provision for slow moving inventories		804	3,131
Bad debts written-off		376	162
Write off of deposits received		(912)	–
Revaluation surplus on leasehold land and buildings		(312)	(147)
Write off of property, plant and equipment		1	29
Gain on disposal of property, plant and equipment		(9)	–
Share of loss of an associate		–	335
Share of (profit)/loss of a jointly controlled entity		(45)	869
Loss/(Gain) on disposal of subsidiaries	*34(b)*	327	(2,740)
Share-based compensation expenses			
– employee compensation expenses		4,614	–
– consultancy fee		205	–
Interest expenses		2,576	2,309
Interest income		(1,158)	(344)
Operating profit before working capital changes		16,035	9,852
Increase in inventories		(3,422)	(3,681)
Decrease/(Increase) in trade and bills receivables		3,268	(10,724)
(Increase)/Decrease in prepayment, deposits and other receivables		(247)	486
Increase in amount due from an associate		–	(1,362)
Increase in amount due from a jointly-controlled entity		(1,097)	–
Increase/(Decrease) in trust receipt loans		1,798	(1,193)
(Decrease)/Increase in trade and bills payables		(3,226)	3,679
Increase in other payables and accruals		159	166
Cash generated from/(used in) operations		13,268	(2,777)
Interest paid		(2,561)	(2,279)
Interest paid in finance lease payments		(15)	(30)
Income tax refunded		–	37
Income tax paid		(74)	(96)
Net cash generated from/(used in) operating activities		10,618	(5,145)

	Notes	2006 HK$'000	2005 HK$'000
Cash flows from investing activities			
Payments to acquire property, plant and equipment		(1,184)	(10,911)
Proceeds from disposal of property, plant and equipment		34	–
Decrease in financial assets at fair value through profit and loss		–	20
Payments to acquire intangible assets		(2,614)	–
Capital contribution to a jointly controlled entity		(578)	–
Acquisition of a subsidiary, net of cash acquired	*34(a)*	–	529
Proceeds from disposal of subsidiaries, net of cash disposed of	*34(b)*	–	2,041
Decrease in amount due from a related company		5,232	2,900
Deposit paid for acquisition of a company	*36*	(15,000)	–
Interest received		1,158	344
Net cash used in investing activities		(12,952)	(5,077)
Cash flows from financing activities			
Proceeds from open offer of shares issued	*30*	38,742	–
Payment in relation to the cost of open offer of shares issued		(1,498)	–
New bank loans		26,522	28,368
Repayment of bank loans		(26,293)	(26,699)
Repayment of capital element of finance lease payables		(96)	(640)
Capital contribution from minority interests		1,260	–
Net cash generated from financing activities		38,637	1,029
Net increase/(decrease) in cash at banks and in hand		36,303	(9,193)
Cash at banks and in hand at 1 January		48,034	56,616
Effect of foreign exchange rate changes, on cash held		887	611
Cash at banks and in hand at 31 December		85,224	48,034

Consolidated Statement of Changes in Equity

For the year ended 31 December 2006

	Equity attributable to equity holders of the Company				Proposed final dividend	Minority interests	Total equity
	Share capital	Other Reserves *(note 32)*	Retained profits	Total			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2004 and 1 January 2005	44,277	11,557	41,331	97,165	–	–	97,165
Revaluation surplus on properties	–	1,841	–	1,841	–	–	1,841
Deferred tax liability arising on revaluation of properties	–	(202)	–	(202)	–	–	(202)
Translation adjustments	–	1,402	–	1,402	–	–	1,402
Net income recognised directly in equity	–	3,041	–	3,041	–	–	3,041
Loss for the year	–	–	(41)	(41)	–	–	(41)
Total recognised income and expense for the year	–	3,041	(41)	3,000	–	–	3,000
Appropriation of statutory surplus reserve	–	386	(386)	–	–	–	–
Reserve transferred to retained profits upon disposal of a subsidiary	–	(389)	389	–	–	–	–
At 31 December 2005 and 1 January 2006	44,277	14,595	41,293	100,165	–	–	100,165
Revaluation surplus on properties	–	1,064	–	1,064	–	–	1,064
Deferred tax liability arising on revaluation of properties	–	(111)	–	(111)		–	(111)
Translation adjustments	–	2,733	–	2,733	–	–	2,733
Net income recognised directly in equity	–	3,686	–	3,686	–	–	3,686
Profit for the year	–	–	1,103	1,103	–	37	1,140
Total recognised income and expense for the year	–	3,686	1,103	4,789	–	37	4,826
Acquisition of a subsidiary	–	–	–	–	–	1,260	1,260
Proceeds from open offer of new shares issued, net *(note 30)*	15,496	21,748	–	37,244	–	–	37,244
Share-based compensation *(note 31)*	–	4,819	–	4,819	–	–	4,819
2006 proposed final dividend *(note 12)*	–	–	(299)	(299)	299	–	–
At 31 December 2006	59,773	44,848	42,097	146,718	299	1,297	148,314

Notes to the Financial Statements

For the year ended 31 December 2006

1. GENERAL INFORMATION

Kiu Hung International Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company's registered office is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is 14th Floor, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong.

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in the design, manufacture and sale of a wide range of toys and decorative gift items. Details of the principal activities of the Company's subsidiaries are set out in note 19. There were no significant changes in the nature of the principal activities of the Company and its subsidiaries (the "Group") during the year.

The financial statements on pages 26 to 100 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The financial statements for the year ended 31 December 2006 were approved by the board of directors on 27 April 2007.

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2006, the Group has adopted all the new and amended HKFRSs which are first effective on 1 January 2006 and relevant to the Group. The adoption of these HKFRSs has resulted in changes in the Group's accounting policy on financial guarantee contracts.

Other than the above, the adoption of these new and amended HKFRSs did not result in significant changes in the Group's accounting policies but gave rise to additional disclosures.

2.1 Amendments to HKAS 39 Financial Instruments: Recognition and Measurement – Financial Guarantee Contracts

The amendments to HKAS 39 require an entity to account for certain financial guarantee contracts in accordance with that standard. To comply with the requirements of the amended HKAS 39, the Group has adopted a new accounting policy to recognise financial guarantee contracts. On initial recognition, these contracts are measured at fair value and they are subsequently stated at the higher of:

– the amount initially recognised less where appropriate, cumulative amortisation recognised in accordance with the Group's revenue recognition policies; and

– the amount of the obligation under the contract, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("HKAS 37").

Details of this new accounting policy are set out in note 3.23.

Prior to this new accounting policy, the Group disclosed the financial guarantees issued as contingent liabilities in accordance with HKFRS 4 "Insurance Contracts" and HKAS 37. Provisions for the Group's liabilities under the financial guarantee contracts were made when it was more likely than not that the guaranteed party would default and the Group would incur outflow of resources embodying economic benefits.

This new accounting policy has been applied retrospectively to the extent that the financial guarantee contracts were in existence at 1 January 2005 (ie the date when HKAS 39 was initially adopted by the Group). This change in accounting policy has had no material effect on the Company's or Group's amounts reported for the current and prior accounting periods.

2.2 New or amended HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such HKFRSs will not result in material financial impact on the Group's financial statements.

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures [1]
HKFRS 7	Financial Instruments – Disclosures [1]
HKFRS 8	Operating Segments [8]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [2]
HK(IFRIC) – Int 8	Scope of HKFRS 2 [3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives [4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment [5]
HK(IFRIC) – Int 11	Group and Treasury Share Transactions [6]
HK(IFRIC) – Int 12	Service Concession Arrangements [7]

[1] Effective for annual periods beginning on or after 1 January 2007
[2] Effective for annual periods beginning on or after 1 March 2006
[3] Effective for annual periods beginning on or after 1 May 2006
[4] Effective for annual periods beginning on or after 1 June 2006
[5] Effective for annual periods beginning on or after 1 November 2006
[6] Effective for annual periods beginning on or after 1 March 2007
[7] Effective for annual periods beginning on or after 1 January 2008
[8] Effective for annual periods beginning on or after 1 January 2009

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for investment properties, leasehold land and buildings, buildings and financial instruments classified as financial assets at fair value through profit or loss which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Group made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.13) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

3.5 Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

In consolidated financial statements, interest in joint ventures is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the joint venture is carried at cost and adjusted for the post-acquisition changes in the Group's share of the joint venture's net assets less any identified impairment losses, unless it is classified as held for sale. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the joint venture for the year, including any impairment loss on goodwill relating to the investment in joint venture recognised for the year.

When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture. For this purpose, the Group's interest in the joint venture is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the joint venture.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its jointly controlled entities. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in joint venture is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.13) of the joint venture and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the joint venture's profit or loss in which the investment is acquired.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the joint venture uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the joint venture's accounting policies to those of the Group when the joint venture's financial statements are used by the Group in applying the equity method.

3.6 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the consolidated income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange fluctuation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates.

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the gain or loss on sale.

3.7 Revenue recognition

Revenue comprises the fair value for the sale of goods net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest method.

3.8 Borrowing costs

All borrowing costs are expensed as incurred.

3.9 Goodwill

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assume, and equity instruments issued by the Group, plus any costs directly attributable to the business combination.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.13).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3.10 Intangible assets (other than goodwill) and research and development activities

Intangible assets (other than goodwill)

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on straight-line basis over their estimated useful lives.

Intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses. Intangible assets are tested for impairment as described below in note 3.13.

Research and Development costs

Cost associated with research activities are expensed in the income statement as they occur.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identifiable and can be measured reliably, there is reasonable certainty that the projects are technically feasible, and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis over the expected commercial lives of the underlying products, subject to a maximum period of five years, commencing from the date when the products are put into commercial production.

All other development costs are expensed as incurred.

3.11 Property, plant and equipment

Buildings and land held under operating leases and buildings thereon (where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease) are stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and any subsequent impairment losses. Fair value is determined in appraisals by external professional valuers with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Any surplus arising on revaluation of land and buildings are credited to the revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 3.13. To the extent that any decrease has previously been recognised in income statement, a revaluation increase is credited to income statement with the remaining part of the increase dealt with in the revaluation reserve. A decrease in net carrying amount of land and buildings arising on revaluations or impairment testing is charged against any revaluation surplus in the revaluation reserve relating to the same asset and the remaining decrease recognised in consolidated income statement.

Depreciation on property, plant and equipment is provided to write off the cost or revalued amounts less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

	Depreciation rate	**Residual value**
Leasehold land and buildings	2%-5%	0%
Buildings	5%	0%
Leasehold improvements	10%	0%
Plant and machinery	10%	10%
Moulds	10-20%	0-10%
Furniture, fixtures and equipment	10-20%	0-10%
Motor vehicles	20%	0-10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated income statement. Any revaluation surplus remaining in equity is transferred to retained profits on the disposal of leasehold land and buildings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

3.12 Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the profit or loss for the period in which they arise.

3.13 Impairment of assets

Goodwill arising on an acquisition of subsidiary, other intangible assets, property, plant and equipment and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

Goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy (refer to note 3.11 for details). The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.14 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 3.12); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon, at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease (see note 3.11). For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligation under finance leases.

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges as the lessee

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

3.15 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, associates and jointly controlled entities are set out below.

Financial assets are classified into the following categories:

– financial assets at fair value through profit or loss

– loans and receivables

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

The accounting policies adopted in respect of each category of financial assets are set out below.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

(ii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

3.16 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

3.17 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.18 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium to the extent they are incremental costs directly attributable to the equity transaction.

3.19 Retirement benefit schemes and short-term employee benefits

(i) Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefits schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (the "MPFS Ordinance"), for those employees who are eligible to participate in the scheme. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "Pension Scheme") for those employees who were eligible to participate in this scheme. This Pension Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Pension Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. The Group has obtained a certificate of exemption issued by the Mandatory Provident Fund Scheme Authority pursuant to Section 5 of the MPFS Ordinance which allows exemption from the operation of all provisions of the MPFS Ordinance. Certain employees of the Group are still participating in the Pension Scheme notwithstanding that the MPF Scheme has been operated since 1 December 2000.

The employees of the Group's subsidiaries which operate in PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme (the "Scheme"). The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the Scheme.

The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of these subsidiaries in the PRC. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above.

3.20 Share-based compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees, directors, shareholders, suppliers and customers of the Group and any other parties having contribution or may contribute to the development of the Group.

All services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is ultimately recognised as an expense in income statement, with a corresponding increase in equity (equity compensation reserve). If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally vested.

Upon exercise of share options, the proceeds received net of any directly attributable transaction costs up to the nominal value of the shares issued are allocated to share capital with any excess being recorded as premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in equity compensation reserve will be transferred to retained profits.

3.21 Financial liabilities

The Group's financial liabilities include bank and trust receipt loans, trade and other payables and finance leasing liabilities. They are included in balance sheet line items as borrowings under current or non-current liabilities, trade and bills payables and other payables and accruals.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the consolidated income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Finance lease liabilities

Finance lease liabilities are measured at initial value less the capital element of lease repayments (See note 3.14).

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Trade and bills payables and other payables and accruals

Trade and bills payables and other payables and accruals are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3.23 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

3.24 Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segment be presented as the primary reporting format and geographical segment as the secondary reporting format.

In respect of business segment reporting, unallocated costs represent corporate expenses. Business segment assets consist primarily of, property, plant and equipment, inventories, amount due from a related company, receivables and operating cash. Segment liabilities comprise operating liabilities.

Capital expenditure comprises additions to intangible assets and property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and capital expenditure is where the assets are located. Assets, except for trade receivables, are attributed to the segments based on the location of the assets. Trade receivables are attributed to the segments based on the location of the customers.

3.25 Related parties

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate of the Company/Group;

(c) the party is a member of the key management personnel of the Company or its parent;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is a related party of the Company/Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Valuation of leasehold land and buildings, buildings and investment property

The leasehold land and buildings, buildings and investment property of the Group were stated at fair value in accordance with the accounting policy state in note 3.11 and 3.12 respectively. The fair value of the leasehold land and buildings, buildings and investment property are determined by an independent qualified professional surveyor, as set out in note 16 and note 18 respectively. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the judgement, consideration has been given to assumptions that are mainly based on market conditions existing at the balance sheet dates and appropriate capitalisation rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

(ii) Valuation of share options granted

The fair value of share options granted is determined by an independent qualified professional valuer, as set out in note 31. Some of the significant estimates and assumptions made by the valuers include the estimated life of share options granted to be ten years based on exercise restrictions and behavioural consideration, the volatility of share price, weighted average share prices and exercise price of the share options granted. Furthermore, the calculation assumes nil future dividends. Details of the inputs are set out in note 31.

(iii) Net realisable values of inventories

Management of the Group reviews the inventory listing on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. Management estimates the net realisable value for such inventories based primarily on the latest prices and current market conditions.

(iv) Impairment of trade and other receivables

Management of the Group determines the impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers and current market condition. Management reassess the impairment of trade and other receivables at the balances sheet date.

5. REVENUE AND TURNOVER

Revenue which is also the Group's turnover, represents total invoiced value of goods supplied.

6. SEGMENT INFORMATION

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

In accordance with the Group's internal financial reporting policy, its segment information is presented by way of two segments format: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Summary details of business segments are as follows:

(i) the toys segment manufactures and trades traditional toys, fashionable toys such as cartoon character products, electronic stuffed toys, educational toys and model kits; and

(ii) the decorative gift items segment manufactures and trades water globes, snow domes, figurines and functional household and garden products such as stocking hangers, pins, magnets, pencil toffers, pencil sharpeners and photo frames.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers. Assets, except for trade receivables, are attributed to the segments based on the location of the assets. Trade receivables are attributed to the segments based on the location of the customers.

There were no intersegment sales and transfers between segments.

(a) Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments.

	Toys		Decorative gift items		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	49,054	31,838	47,524	35,690	96,578	67,528
Segment results	1,019	(645)	987	(723)	2,006	(1,368)
Interest, rental income and unallocated gains					5,297	6,631
Unallocated expenses					(2,195)	(890)
Operating profit					5,108	4,373
Finance costs					(2,576)	(3,533)
Share of profit/(loss) of a jointly controlled entity					45	(869)
Share of loss of an associate					–	(335)
Profit/(Loss) before income tax					2,577	(364)
Income tax (expense)/credit					(1,437)	323
Profit/(Loss) for the year					1,140	(41)
Segment assets	46,736	44,021	101,992	76,446	148,728	120,467
Unallocated assets					51,068	33,139
Total assets					199,796	153,606
Segment liabilities	17,309	17,274	25,880	10,899	43,189	28,173
Unallocated liabilities					8,293	25,268
Total liabilities					51,482	53,441
Other segment information:						
Depreciation and amortisation	2,042	1,899	4,433	3,624	6,475	5,523
Unallocated amounts					516	828
					6,991	6,351
Impairment loss on goodwill	–	–	–	–	–	261
Other non-cash expenses	470	6	233	–	703	6
Unallocated amounts					–	205
					703	211
Capital expenditure	3,368	492	430	10,419	3,798	10,911

(b) Geographical segments

The following tables present revenue, results and certain assets and expenditure information for the Group's geographical segments, irrespective of the origin of the goods.

	PRC (including Hong Kong)		North America[1]		European Union[2]		Others[3]		Consolidated	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:										
Sales to external customers	2,890	3,005	70,679	48,611	19,992	13,161	3,017	2,751	96,578	67,528
Segment results	60	(55)	1,468	(1,012)	415	(260)	63	(41)	2,006	(1,368)
Other segment information:										
Segment assets	193,421	143,232	5,630	9,391	745	439	–	544	199,796	153,606
Capital expenditure	3,798	10,911	–	–	–	–	–	–	3,798	10,911

1 North America includes the United States of America and Canada
2 European Union includes Spain, Italy, France and the United Kingdom
3 Others includes Middle East, South America and Southeast Asia

7. OTHER REVENUE

	2006	**2005**
	HK$'000	*HK$'000*
Interest income	1,158	344
Exchange gains, net	1,627	53
Rental income	25	25
Gains on disposal of subsidiaries	–	2,740
Gain on disposal of property, plant and equipment	9	–
Write off of deposits received	912	–
Sale of moulds	602	530
Surplus on revaluation of leasehold land and buildings (reversing revaluation decrease previously charged to consolidated income statement)	312	147
Others	652	2,792
	5,297	6,631

8. OPERATING PROFIT

	2006 *HK$'000*	2005 *HK$'000*
Operating profit is arrived at after charging:		
Impairment loss on goodwill (included in other operating expenses)	–	261
Amortisation of license rights (included in cost of sales)	190	–
Auditors' remuneration		
– current year	777	460
– overprovision in prior years	–	(13)
	777	447
Bad debts written-off	376	162
Cost of inventories recognised as expenses	57,288	40,174
Depreciation and amortisation:		
– owned property, plant and equipment	6,582	6,060
– leased property, plant and equipment	72	139
– prepaid land lease payments	147	152
	6,801	6,351
Provision for slow-moving inventories	804	3,131
Loss on disposal of subsidiaries (included in other operating expenses)	327	–
Operating lease charges on land and buildings	178	281
Changes in fair value of financial assets at fair value through profit and loss	–	20
Research and development costs – current year expenditure	2,763	1,401
Write off of property, plant and equipment	1	29

Depreciation expense of HK$2,966,000 (2005: HK$3,553,000) has been expensed in cost of sales and HK$3,688,000 (2005: HK$2,646,000) in administrative expenses.

9. FINANCE COSTS

	2006 *HK$'000*	2005 *HK$'000*
Interest charges on:		
Bank loans and trust receipt loans wholly repayable within five years	2,561	2,139
Bank loans not wholly repayable within five years	–	140
Finance charges on finance leases	15	30
Interest on capital contribution payable to a jointly controlled entity	–	1,224
	2,576	3,533

10. INCOME TAX EXPENSE/(CREDIT)

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

	2006	**2005**
	HK$'000	*HK$'000*
Current tax		
– Hong Kong		
Tax for the year	47	73
– Overseas		
Tax for the year	–	–
Over provision in respect of prior years	–	(306)
	47	(233)
Deferred tax		
Current year *(note 33)*	1,390	(90)
Total income tax expense/(credit)	1,437	(323)

Reconciliation between tax expense/(credit) and accounting profit/(loss) at applicable tax rates:

	2006	**2005**
	HK$'000	*HK$'000*
Profit/(Loss) before income tax	2,577	(364)
Tax calculated at the rate of 17.5% (2005: 17.5%)	451	(64)
Tax calculated at the rates applicable to other jurisdictions	(574)	8
Tax effect of non-deductible expenses	1,204	352
Tax effect of non-taxable revenue	(367)	(88)
Tax effect of utilisation of tax losses not previously recognised	(912)	(225)
Tax effect of tax losses not recognised	1,635	–
Over provision in prior years	–	(306)
Actual tax expense/(credit)	1,437	(323)

In addition to the amount expensed/(credited) to the consolidated income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (note 32).

No provision for the PRC enterprise income tax has been made for Fujian Kcare Giftoys Co., Ltd. (福建奇嘉禮品有限公司) ("Fujian Kcare"), Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian (福建莆田市僑雄輕工有限公司), Qiao Xiong Toys Co., Ltd. Putian Fujian (福建省莆田市僑雄玩具有限公司) and Ka Hung Toys Co., Ltd. Fujian (福建嘉雄玩具有限公司) as these subsidiaries did not derive any assessable income during the year.

11. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to equity holders of the Company of HK$1,103,000 (2005: Loss of HK$41,000), HK$38,823,000 (2005: Loss of HK$26,109,000) has been dealt with in the financial statements of the Company.

12. PROPOSED FINAL DIVIDEND

	2006	2005
	HK$'000	*HK$'000*
Proposed final dividend attributable to the year of 0.01 cents per share (2005: nil)	299	–

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of retained earnings for the year ended 31 December 2006.

13. EARNINGS/LOSS PER SHARE

The calculation of basic earning/(loss) per share is based on the profit/(loss) attributable to equity holders of the Company for the year of HK$1,103,000 (2005: Loss of HK$41,000) and the weighted average of 2,883,343,371 (2005: 2,818,570,829 (restated)) ordinary shares in issue during the year.

The weighted average number of shares for the purposes of calculating basic loss per share for the year 2005 has been adjusted to reflect the issuance of shares as a result of the open offer of shares issued as detailed in note 30.

The calculation of diluted earning per share is based on the profit attributable to equity holders of the Company for the year of HK$1,103,000 and the weighted average of 2,922,024,874 ordinary shares outstanding during the year, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average of 2,883,343,371 ordinary shares in issue during the period plus the weighted average of 38,681,503 ordinary shares deemed to be issued at no consideration as if all the Company's share options have been exercised.

The Group entered into a series of agreements in relation to the acquisition of subsidiaries on 16 January 2007 (note 41.1). Part of the consideration is to be satisfied by the allotment and issue of 362,000,000 ordinary shares of the Company.

Diluted loss per share for the years ended 31 December 2005 has not been presented as there was no dilutive potential ordinary shares.

14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	16,078	15,030
Pension costs – defined contribution plans	1,023	818
Share options granted to employees	4,614	–
	21,715	15,848

15. DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

(a) Directors' emoluments

	Fees	Salaries and allowances	Contribution to defined contribution plan	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the year ended 31 December 2006				
Executive directors				
Mr. Hui Kee Fung	–	1,464	147	1,611
Mr. Hui Ki Yau	–	1,272	127	1,399
Ms. Hui Hung Tan, Teresa	–	624	62	686
Independent non-executive directors				
Mr. Peng Guanghui	70	–	–	70
Mr. Kung King Ching, Conrad	50	–	–	50
Mr. Tang Rongzu	30	–	–	30
Dr. Lin Al Yue	–	–	–	–
	150	3,360	336	3,846
For the year ended 31 December 2005				
Executive directors				
Mr. Hui Kee Fung	–	1,464	147	1,611
Mr. Hui Ki Yau	–	1,272	127	1,399
Ms. Hui Hung Tan, Teresa	–	624	62	686
Independent non-executive directors				
Mr. Peng Guanghui	20	–	–	20
Mr. Kung King Ching, Conrad	–	–	–	–
Dr. Lin Al Yue	–	–	–	–
Mr. Sy Chin Mong, Stephen	–	–	–	–
	20	3,360	336	3,716

There was no arrangement under which a director waived or agreed to waive any remuneration in respect of the year ended 31 December 2006 (2005: Nil).

During the year, there were no emoluments paid by the Group to the directors as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2005: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Basic salaries, share options and other allowances	2,911	1,012
Contribution to pensions schemes	56	76
	2,967	1,088

During the year, no emoluments were paid to these two highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2005: Nil).

The emoluments of the two (2005: two) highest paid individuals fell within the following bands:

	Number of highest paid individuals	
	2006	**2005**
	HK$'000	*HK$'000*
HK$Nil – HK$1,000,000	–	2
HK$1,000,001 – HK$1,500,000	1	–
HK$1,500,001 – HK$2,000,000	1	–

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings HK$'000 (note (a))	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Moulds HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 31 December 2004								
Cost or valuation	18,516	25,727	2,093	9,936	16,746	3,581	3,386	79,985
Accumulated depreciation	–	–	(1,745)	(5,983)	(6,757)	(2,633)	(2,549)	(19,667)
Net book amount	18,516	25,727	348	3,953	9,989	948	837	60,318
Year ended 31 December 2005								
Opening net book amount	18,516	25,727	348	3,953	9,989	948	837	60,318
Additions	–	–	–	153	10,356	402	–	10,911
Arising from acquisition of a subsidiary	–	–	–	–	1,577	3	–	1,580
Revaluation surplus credited to equity	1,312	529	–	–	–	–	–	1,841
Revaluation surplus credited to consolidated income statement	147	–	–	–	–	–	–	147
Write off	–	–	–	(7)	–	(22)	–	(29)
Disposal of subsidiaries	–	–	–	–	(2,991)	–	–	(2,991)
Depreciation	(686)	(1,311)	(85)	(774)	(2,610)	(425)	(308)	(6,199)
Exchange differences	71	255	–	51	384	25	5	791
Closing net book amount	19,360	25,200	263	3,376	16,705	931	534	66,369
At 31 December 2005								
Cost or valuation	19,360	25,200	2,093	10,198	25,369	3,996	3,435	89,651
Accumulated depreciation	–	–	(1,830)	(6,822)	(8,664)	(3,065)	(2,901)	(23,282)
Net book amount	19,360	25,200	263	3,376	16,705	931	534	66,369

	Leasehold land and buildings *HK$'000* *(note (a))*	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Moulds *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Year ended 31 December 2006								
Opening net book amount	19,360	25,200	263	3,376	16,705	931	534	66,369
Additions	–	–	–	160	798	226	–	1,184
Revaluation surplus credited to equity	793	271	–	–	–	–	–	1,064
Revaluation surplus credited to consolidated income statement	312	–	–	–	–	–	–	312
Disposals	–	–	–	–	–	–	(25)	(25)
Write-off	–	–	–	(1)	–	–	–	(1)
Depreciation	(662)	(1,269)	(57)	(682)	(3,497)	(353)	(134)	(6,654)
Exchange differences	97	1,008	–	56	429	31	7	1,628
Closing net book amount	19,900	25,210	206	2,909	14,435	835	382	63,877
At 31 December 2006								
Cost or valuation	19,900	25,210	2,093	10,599	26,822	4,272	3,252	92,148
Accumulated depreciation	–	–	(1,887)	(7,690)	(12,387)	(3,437)	(2,870)	(28,271)
Net book amount	19,900	25,210	206	2,909	14,435	835	382	63,877
At cost	–	–	2,093	10,599	26,822	4,272	3,252	47,038
At professional valuation	19,900	25,210	–	–	–	–	–	45,110
At 31 December 2006	19,900	25,210	2,093	10,599	26,822	4,272	3,252	92,148
At cost	–	–	2,093	10,198	25,369	3,996	3,435	45,091
At professional valuation	19,360	25,200	–	–	–	–	–	44,560
At 31 December 2005	19,360	25,200	2,093	10,198	25,369	3,996	3,435	89,651

Note (a): The land and buildings elements cannot be allocated reliably, and therefore the entire lease payments for these leasehold land and buildings were treated as finance leases and included in the Group's property, plant and equipment at valuation.

An analysis of the cost or valuation of the Group's buildings and leasehold land and buildings at the balance sheet date is as follows:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Medium term leases held in Hong Kong	11,050	10,450
Medium term leases held outside Hong Kong	34,060	34,110
	45,110	44,560

Pursuant to a sale and purchase agreement (the "S&P Agreement") entered into between the Group and an independent third party during 2001, the Group acquired leasehold land and buildings for retail shop purposes in the PRC (the "Property") with carrying value of approximately HK$6,430,000 at 31 December 2006 (2005: HK$6,470,000).

The Group is in the process of applying for the ownership certificate for the Property. As confirmed by a legal opinion issued by the Group's PRC lawyer, the S&P Agreement is legally valid under the laws of the PRC and there is no legal barrier or otherwise for the Group to obtain ownership certificate for the Property from the relevant PRC authority.

At 31 December 2006, certain of the Group's buildings and leasehold land and buildings with aggregate carrying values of approximately HK$10,180,000 and HK$9,860,000 respectively (2005: HK$10,200,000 and HK$9,300,000 respectively) were pledged to secure general banking facilities granted to the Group as detailed in note 29.

The net book value of the Group's property, plant and equipment held under finance leases included in the total amount of plant and machinery, furniture, fixtures and equipment, and motor vehicles at 31 December 2006, amounted to Nil (2005: HK$482,000), HK$34,000 (2005: HK$39,000) and HK$123,000 (2005: HK$189,000) respectively.

The leasehold land and buildings situated in Hong Kong for office purposes and outside Hong Kong for office and retail shop purposes were valued as at 31 December 2006 at HK$19,900,000 (2005: HK$19,360,000) on an open market value basis by Castores Magi (Hong Kong) Limited ("Castores"), an independent firm of professional valuers. The buildings situated outside Hong Kong for the Group's production facilities were valued by Castores as at 31 December 2006 at HK$25,210,000 (2005: HK$25,200,000) on a depreciated replacement cost basis.

Had the Group's buildings and leasehold land and buildings been stated at cost less accumulated depreciation and amortisation, they would have been included in the financial statements at approximately HK$16,755,000 (2005: HK$17,782,000) and HK$13,188,000 (2005: HK$14,119,000) respectively.

17. PREPAID LAND LEASE PAYMENTS

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Group 2006	Group 2005
	HK$'000	*HK$'000*
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	6,213	6,118

	Group 2006	Group 2005
	HK$'000	*HK$'000*
Opening net carrying amount	6,118	6,270
Exchange difference	242	–
Annual charges of prepaid land lease payments	(147)	(152)
Closing net carrying amount	6,213	6,118

None of the Group's land use right was pledged to secure general banking facilities granted to the Group.

18. INVESTMENT PROPERTY

	Group 2006	Group 2005
	HK$'000	*HK$'000*
Carrying amount as at 1 January and 31 December	400	400

The investment property of the Group is situated in Hong Kong and held under medium term lease.

The investment property was valued on an open market value basis by Castores Magi (Hong Kong) Limited at 31 December 2006. The investment property held in Hong Kong represents a car parking space L12 on 1/F of Wing Kin Industrial Building, 4-6 Wing Kin Road, Kwai Chung, New Territories, Hong Kong. The investment property is leased to a third party under operating lease arrangements, further details of which are included in note 35(a).

The Group's property interests held under operating leases to earn rentals are measured by using the fair value model and are classified and accounted for as investment property.

19. INTERESTS IN SUBSIDIARIES/AMOUNT DUE FROM A SUBSIDIARY

	Company 2006 HK$'000	Company 2005 HK$'000
Investments – unlisted shares, at cost	125,261	125,261
Investments – share based compensation *(note 31)*	4,819	–
Less: Provision for impairment	(25,000)	(25,000)
	105,080	100,261
Amount due from a subsidiary	110,183	46,743

The amount due from a subsidiary is unsecured, interest-free and repayable on demand. Accordingly, the amount is classified as current assets.

Particulars of the principal subsidiaries as at 31 December 2006 are as follows:

Name	Country/Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company Direct	Indirect	Principal activities	Place of operations
Legend Wealth Holdings Limited	British Virgin Islands ("BVI")	50,500 ordinary shares of US$1 each	100%	–	Investment holding	Hong Kong
Kiu Hung International Enterprises Limited	Hong Kong	2 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each *(note (a))*	–	100%	Investment holding	Hong Kong
Kiu Hung Toys Company Limited	Hong Kong	2 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each *(note (a))*	–	100%	Investment holding	Hong Kong
Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian 福建莆田市僑雄輕工有限公司 *(note (b))*	PRC	US$5,000,000	–	100%	Property holding	PRC

Name	Country/Place of incorporation/ registration	Particulars of issued/ registered capital	Percentage of equity interests held by the Company Direct	Indirect	Principal activities	Place of operations
Qiao Xiong Toys Co., Ltd. Putian Fujian 福建省莆田市僑雄玩具有限公司 *(note (c))*	PRC	HK$10,000,000	–	100%	Manufacture of toys	PRC
Fujian Kcare Giftoys Co., Ltd. 福建奇嘉禮品玩具有限公司 *(note (d))*	PRC	Renminbi ("RMB") 10,000,000	–	100%	Manufacture and trading of decorative gift items and toys	PRC
Newgary Development Limited	Hong Kong	2 ordinary shares of HK$1 each and 10,000 non-voting deferred shares of HK$1 each *(note (a))*	–	100%	Property holding	Hong Kong
Top Point Investments Limited	BVI	100 ordinary shares of US$1 each	–	100%	Investment in securities	Hong Kong
Kiu Hung Investments Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Investment and property holding	Hong Kong
Kiu Hung Industries Limited	Hong Kong	1,000 ordinary shares of HK$1 each	–	100%	Manufacture and trading of decorative gift items and toys	Hong Kong
Ka Hung Toys Co., Ltd. Fujian 福建嘉雄玩具有限公司 (formerly known as Fujian Putian Jiaxiong Toys Co., Ltd. 福建省莆田嘉雄玩具有限公司) *(note (e))*	PRC	RMB10,000,000	–	100%	Manufacture and trading of decorative gift items and toys	PRC
Miracles For Fun (HK) Limited	Hong Kong	100 ordinary shares of HK$100 each	–	63%	Trading of toys and decorative gift items	Hong Kong
Toland International Holding Limited	Hong Kong	4,2000,000 ordinary shares of HK$100 each	–	70%	Trading of flags and garden products	Hong Kong

Notes:

(a) The non-voting deferred shares carry no rights to dividends, no rights to attend or vote at general meetings and no rights to receive any surplus assets in return of capital in a winding-up (other than the nominal amount paid up or credited as paid up on such shares, after the sum of HK$100,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).

(b) Kiu Hung Light Industrial Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1992. Its registered capital is US$5,000,000 which has been fully paid up.

(c) Qiao Xiong Toys Co., Ltd. Putian City, Fujian, is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 15 May 1996. Its registered capital is HK$10,000,000 which has been fully paid up.

(d) Fujian Kcare Giftoys Co., Ltd. is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 28 May 2001. Its registered capital is RMB10,000,000 which has been fully paid up.

(e) Ka Hung Toys Co., Ltd. Fujian is a wholly foreign-owned enterprise established in the PRC with a tenure of 50 years commencing from the date of issuance of its business licence on 12 November 2002. Its registered capital is RMB10,000,000 which has been fully paid up.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

20. INTEREST IN AN ASSOCIATE

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Balance at 1 January	–	335
Share of associate results		
– Loss before taxation	–	(335)
Balance at 31 December	–	–
Amount due from an associate	–	–
Balance at 31 December	–	–

In 2005, the Group acquired further 33% of issued share capital of the associate, Miracles for Fun (HK) Limited ("MFF"). Details of the acquisition are set out in note 34(a).

A condensed summary of the financial information of the Group's associate is not presented for 2005 and 2006 because MFF became a non-wholly owned subsidiary of the Group during the year 2005.

21. INTEREST IN AND AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Unlisted shares, at cost	578	–
Share of post-acquisition result of a jointly controlled entity	45	–
Interest in a jointly controlled entity	623	–
Amount due from a jointly controlled entity	1,097	–

The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

Name	Country of incorporation	Particulars of issued capital	Percentage of equity interests held by the Company Direct	Indirect	Principal activities	Place of operations
Marketing Resource Group, Inc. ("MRG")	USA	US$150,000	–	50%	Trading of flags and garden products	USA

Pursuant to the agreement dated 19 April 2005, Sangyang Spandex Co. Ltd. ("Sangyang Spandex"), a jointly-controlled entity of the Group, was disposed of by the Group to Kiu Hung Holdings Limited, a company beneficially owned by the three executive directors of the Company ("the Disposal").

Sangyang Spandex is principally engaged in the production, research and development and sale of spandex in the PRC. Sangyang Spandex has not commenced any operation up to the date of the Disposal.

On 25 October 2006, Bestever Development Limited ("Bestever"), a wholly owned subsidiary of the Group entered into a Shareholder Agreement (the "Agreement") with Bruce Warren Solly ("Solly"), the minority shareholder of Toland International Limited ("Toland"), a 70% owned subsidiary of the Group formed on the same date, to invest in and operate MRG as a joint venture. Pursuant to the Agreement, Bestever subscribed for 50% of the total authorised share capital of MRG at par for cash consideration of US$75,000 (HK$578,000).

MRG's and Sangyang Spandex's financial statements have been incorporated into the Group's 2006 and 2005 consolidated financial statements respectively using the equity method.

The following table illustrates the summarised financial information of the Group's jointly controlled entities:

	2006	**2005**
	HK$'000	*HK$'000*
Share of the jointly controlled entity's assets and liabilities:		
– Non-current assets	78	–
– Current assets	2,817	–
	2,895	–
– Current liabilities	2,272	–
– Net assets	623	–
Share of the jointly controlled entities' results:		
– Income	4,237	–
– Expenses	(4,192)	(869)
– Profit/(Loss) for the year	45	(869)

22. AMOUNT DUE FROM A RELATED COMPANY

Details of amount due from a related company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

Name of borrower	:	Kiu Hung Holdings Limited
Directors connected with the borrower	:	Hui Kee Fung Hui Ki Yau Hui Hung Tan, Teresa

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Non-current portion	–	2,619
Current portion	2,900	5,513
	2,900	8,132
Maximum amount outstanding during the year	8,132	11,032

The amount due from a related company bears no interest and is repayable in four equal instalments of HK$3,000,000 each, payable on 24 December 2005, 24 June 2006, 24 December 2006 and 24 June 2007.

The amount was stated at amortised cost using the effective interest rate of the Group at 6.9% per annum.

23. INTANGIBLE ASSETS

Group

	Goodwill	Production and distribution rights	Trademark	License rights	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Carrying value at 1 January 2005	–	–	–	–	–
Acquisition of a subsidiary	261	–	–	–	261
Impairment	(261)	–	–	–	(261)
Carrying value at 31 December 2005	–	–	–	–	–
Gross amount at 31 December 2005	261	5,000	–	–	5,261
Accumulated impairment	(261)	(3,667)	–	–	(3,928)
Accumulated amortisation	–	(1,333)	–	–	(1,333)
Carrying value at 31 December 2005	–	–	–	–	–
Carrying value at 1 January 2006	–	–	–	–	–
Addition	–	–	1,155	1,459	2,614
Amortisation charge	–	–	–	(190)	(190)
Carrying value at 31 December 2006	–	–	1,155	1,269	2,424
Gross amount at 31 December 2006	261	5,000	1,155	1,459	7,875
Accumulated impairment	(261)	(3,667)	–	–	(3,928)
Accumulated amortisation	–	(1,333)	–	(190)	(1,523)
Carrying value at 31 December 2006	–	–	1,155	1,269	2,424

The production and distribution rights represent the exclusive right to produce and distribute the nano plush toys and the non-exclusive right to produce and distribute the nano decorative gift items in the PRC. The directors have assessed the market condition for these products and consider that the demand for such products will be limited in the near future and therefore full provision for impairment was made against the carrying amount of the rights as at 31 December 2004.

During the year the Group entered into an Asset Purchase Agreement to acquire the right to the trade name of "Toland" for 99 years with a consideration of US$150,000.

The Group also entered into a license agreement with Beijing Organizing Committee for the Games of the XXIX Olympiad for the right to manufacture official mascots of the Beijing 2008 Olympic Games souvenir products. The license expires on 31 December 2008. Professional consulting fee amounted to RMB1,500,000 (HK$1,459,000) directly attributed to the obtainment of license is recognised as cost of license rights.

No contractual commitments resulting from these agreements were entered during the year.

Amortisation charge on the license rights is included in "cost of sales" of the consolidated income statement.

24. INVENTORIES

	Group 2006 HK$'000	Group 2005 HK$'000
Raw materials	11,423	10,358
Work in progress	3,675	3,228
Finished goods	2,701	791
	17,799	14,377
Less: Provision for slowing moving inventories	(7,572)	(6,768)
	10,227	7,609
The cost of inventories recognised as expense and included in cost of sales	57,288	40,174

25. TRADE AND OTHER RECEIVABLES

	Group 2006 HK$'000	Group 2005 HK$'000
Trade and bills receivables	9,105	12,749
Prepayment, deposits and other receivables	1,716	1,796
	10,821	14,545

The Group's trading terms with its customers are mainly on credit, except for new customers where payment in advance is normally required. The credit period is generally for a period of one month, extending up to three months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

At 31 December 2006, the ageing analysis of the trade and bills receivables, net of provision, is as follows:

	2006 HK$'000	2005 HK$'000
0 – 30 days	4,878	6,679
31 – 90 days	3,799	5,990
91 – 180 days	274	80
181 – 360 days	154	–
	9,105	12,749

Included in trade receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	2005
	'000	*'000*
US dollars	US$1,123	US$1,628
Renminbi	RMB460	RMB221

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Listed equity securities in Hong Kong held for trading, at fair value	286	286
Market value of listed securities held as at 31 December	286	286

Changes in fair values of financial assets at fair value through profit or loss are recorded in other operating expenses in the consolidated income statement.

27. CASH AT BANKS AND IN HAND

Included in cash at banks and in hand is an amount of approximately HK$64,994,000 (2005: HK$36,732,000), representing Renminbi ("RMB") deposits placed with banks in the PRC by the Group.

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

28. TRADE AND OTHER PAYABLES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Trade and bills payables	7,632	10,858
Other payables and accruals:		
Deposits received	124	940
Accrued expenses	4,778	4,687
Other taxes	–	28
	4,902	5,655
	12,534	16,513

The Group was granted by its suppliers credit periods of 30 to 90 days. Based on the invoice dates, the ageing analysis of the trade and bills payables was as follows:

	2006	**2005**
	HK$'000	*HK$'000*
0 – 30 days	2,098	2,728
31 – 90 days	3,675	5,595
91 – 180 days	1,633	2,196
181 – 360 days	18	308
Over 360 days	208	31
	7,632	10,858

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2006	**2005**
	'000	*'000*
US dollars	US$189	US$8
Renminbi	RMB4,804	RMB6,615

29. BORROWINGS

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Non-current		
Interest bearing bank loans	1,765	2,203
Finance lease liabilities	1	48
	1,766	2,251
Current		
Interest bearing bank loans	29,441	28,774
Interest bearing trust receipt loans	3,578	1,780
Finance lease liabilities	47	96
	33,066	30,650
Total borrowings	34,832	32,901
Secured	34,832	32,901

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

At 31 December 2006, the Group's bank loans and trust receipt loans (excluding finance lease liabilities) were repayable as follows:

	Group			
	Bank loans		Trust receipt loans	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	29,441	28,774	3,578	1,780
In the second year	475	445	–	–
In the third to fifth years	1,290	1,523	–	–
Wholly repayable within 5 years	31,206	30,742	3,578	1,780
After the fifth year	–	235	–	–
	31,206	30,977	3,578	1,780

The analysis of the obligations under finance leases is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Due within one year	55	111
Due in the second to fifth years	1	56
	56	167
Future finance charges on finance leases	(8)	(23)
Present value of finance lease liabilities	48	144

The present value of finance lease liabilities is as follows:

Due within one year	47	96
Due in the second to fifth years	1	48
	48	144
Less: Portion due within one year included under current liabilities	(47)	(96)
Non-current portion included under non-current liabilities	1	48

At 31 December 2006, the banking facilities of the Group were secured by:

(i) first legal charges on certain of the Group's buildings and leasehold land and buildings with carrying value of approximately HK$10,180,000 (2005: HK$10,200,000), HK$9,860,000 (2005: HK$9,300,000) respectively (note 16);

(ii) corporate guarantees executed by the Company to the extent of HK$14 million (2005: 14 million) and;

(iii) corporate guarantees executed by certain subsidiaries of the Company to the extent of HK$22 million (2005: HK$22 million).

The exposure of the Group's fixed-rate borrowings are as follows:

	2006	2005
	HK$'000	*HK$'000*
Fixed-rate borrowings:		
Within one year	26,147	24,615
In more than one year but not more than two years	1	47
In more than two years but not more than three years	–	1
	26,148	24,663

In addition, the Group has variable-rate borrowings which are denominated in Hong Kong dollars and the rates are set at the range from HK Prime rate minus 1% per annum to HK prime rate per annum.

The ranges of effective interest rates on the Group's borrowings are as follows:

	2006	2005
Effective interest rate:		
Fixed-rate borrowings	3% p.a. to 7.605% p.a.	3% p.a. to 7.25% p.a.
Variable-rate borrowings	6.75% p.a. to 8.25% p.a.	2.31% p.a. to 8.09% p.a.

During the year, the Group obtained new loans in the amount of HK$26,522,000. The loans bear interest rate at market rates and will be repayable in 2007. The proceeds were used to finance the Group's daily operations.

30. SHARE CAPITAL

	Number of shares	As at 31 December 2006	As at 31 December 2005
		HK$'000	*HK$'000*
Authorised:			
5,000,000,000 ordinary shares of HK$0.02 each	5,000,000,000	100,000	100,000

	Number of shares	Total
		HK$'000
Issued and fully paid:		
At 1 January 2005 and 31 December 2005	2,213,820,000	44,277
Open offer of new shares issued	774,837,000	15,496
At 31 December 2006	2,988,657,000	59,773

Pursuant to the Company's announcement made on 6 July 2006 to make an open offer of 774,837,000 shares at HK$0.05 per offer share on the basis of 7 offer shares for every 20 existing shares held on 31 July 2006, to raise approximately HK$38,742,000, before expenses or HK$37,244,000 after expenses. The open offer was closed on 14 August 2006, with 10.86% acceptance, the remaining offers were fully underwritten and became unconditional on 17 August 2006.

As a result of the open offer, the issued share capital of the Company was increased to HK$59,773,000 by the capitalization of HK$21,748,000, net of expenses, share premium. The 774,837,000 new shares issued rank pari passu in all respects with the existing shares of the Company.

31. SHARE OPTIONS

The Company adopted a share option scheme (the "Scheme") which became effective on 28 May 2002.

Pursuant to the Scheme, the directors may, at their discretion, invite any eligible employees (including executive directors), any non-executive directors, shareholders, suppliers and customers of the Group and any other parties having contributed or may contribute to the development of the Group to take up options to subscribe for shares of the Company (the "Shares"). The subscription price shall be a price determined by the directors, but shall not be less than the highest of (i) the closing price of the Shares on the date of the offer; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Share.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the total issued share capital of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme shall not in aggregate exceed 10% of the total number of Shares in issue as at 28 May 2002. The Company may seek approval of the Company's shareholders in general meeting for refreshing the 10% limit under the Scheme save that the total number of Shares which may be issued upon exercise of all options to be granted under the Scheme under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as at the date of approval of the limit.

The total number of Shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Where any further grant of options to a participant would result in the total number of Shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of Shares in issue, such further grant must be separately approved by the shareholders of the Company in general meeting with such participant and his associates abstaining from voting.

On 19 June 2006, the Company granted 94,500,000 share options with an exercise price of HK$0.13 each to 42 individuals.

Pursuant to the Company's announcement dated 18 August 2006, the aggregate of 94,500,000 outstanding options exercisable at HK$0.13 each have been adjusted in accordance with the terms of the Scheme to 120,960,000 options exercisable at HK$0.1016 each, as a result of the open offer (see note 30).

The following tables disclose movements in the share options:

Grantee	Share option type	Outstanding at 1 January 2006	Granted during the year	Outstanding at 31 December 2006
Employees	2006a	–	49,280,000	49,280,000
	2006b	–	67,840,000	67,840,000
		–	117,120,000	117,120,000
Consultant	2006a	–	3,840,000	3,840,000
		–	120,960,000	120,960,000

The consideration received in respect of share options granted amounted to HK$42, representing HK$1 per grantee.

There were no share options issued or outstanding for the year 2005.

Details of share options are as follows:

Share option type	Date of grant	Adjusted exercise price
2006a and 2006b	19 June 2006	HK$0.1016

The share options are exercisable from 1 January 2007 to 18 June 2016 in the following manner:

Exercisable period	Maximum percentage of options exercisable 2006a	2006b
1 January 2007 to 30 June 2007	50%	15%
1 July 2007 to 31 December 2007	50%	15%
1 January 2008 to 31 December 2008	No limit	35%
1 January 2009 to 31 December 2009	No limit	35%
1 January 2010 to 18 June 2016	No limit	No limit

The following significant assumptions and estimates were used by the independent valuers to derive the fair value of options granted during the year, using the Black-Scholes option pricing model:

Expected volatility (based on historical volatility of the Company's shares)	48.916%
Expected life	10 years
Risk-free interest rate (being the approximate annual yield of 10-year Exchange Fund on the grant date)	5.14%
Expected dividend yield	Nil

In total, HK$4,819,000 (2005: Nil) of the share-based payment has been included in the consolidated income statement for the year ended 31 December 2006, of which HK$4,614,000 and HK$205,000 has been included as employee compensation expense, and consultancy fee respectively, the corresponding amounts have been credited to equity compensation reserve (note 32).

The share-based payment of HK$4,819,000 has been included in the Company's balance sheet as investment in subsidiaries and the corresponding amount has been credited to equity compensation reserve (note 32).

No liabilities were recognised due to share-based payment transactions.

32. RESERVES

Group

	Other reserves							Retained profits	Total
	Share premium	Statutory surplus reserve	Capital reserve	Exchange fluctuation reserve	Equity compensation reserve	Assets revaluation reserve	Sub-total		
	HK$'000	*HK$'000* *(note (a))*	*HK$'000* *(note (b))*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 31 December 2004 and 1 January 2005	1,658	1,109	702	(2,857)	–	10,945	11,557	41,331	52,888
Revaluation surplus	–	–	–	–	–	1,841	1,841	–	1,841
Appropriation of statutory surplus reserve	–	386	–	–	–	–	386	(386)	–
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	(202)	(202)	–	(202)
Translation adjustments	–	–	–	1,402	–	–	1,402	–	1,402
Reserve transferred to retained earnings upon disposal of a subsidiary	–	–	(389)	–	–	–	(389)	389	–
Loss for the year	–	–	–	–	–	–	–	(41)	(41)
At 31 December 2005	1,658	1,495	313	(1,455)	–	12,584	14,595	41,293	55,888
At 31 December 2005 and 1 January 2006	1,658	1,495	313	(1,455)	–	12,584	14,595	41,293	55,888
Revaluation surplus	–	–	–	–	–	1,064	1,064	–	1,064
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	(111)	(111)	–	(111)
Translation adjustments	–	–	–	2,733	–	–	2,733	–	2,733
Profit for the year	–	–	–	–	–	–	–	1,103	1,103
Proceeds from open offer of new shares issued, net *(note 30)*	21,748	–	–	–	–	–	21,748	–	21,748
Share-based compensation *(note 31)*	–	–	–	–	4,819	–	4,819	–	4,819
2006 proposed final dividend *(note 12)*	–	–	–	–	–	–	–	(299)	(299)
At 31 December 2006	23,406	1,495	313	1,278	4,819	13,537	44,848	42,097	86,945

Company

	Share premium *HK$'000*	Capital reserve *HK$'000* *(note (b))*	Equity compensation reserve *HK$'000*	Retained profits/ (Accumulated loss) *HK$'000*	Total *HK$'000*
At 1 January 2005	1,658	125,161	–	1,986	128,805
Loss for the year	–	–	–	(26,109)	(26,109)
At 31 December 2005	1,658	125,161	–	(24,123)	102,696
Proceeds from open offer of new shares issued, net *(note 30)*	21,748	–	–	–	21,748
Share-based compensation *(note 31)*	–	–	4,819	–	4,819
Profit for the year	–	–	–	38,823	38,823
2006 proposed final dividend *(note 12)*	–	–	–	(299)	(299)
At 31 December 2006	23,406	125,161	4,819	14,401	167,787

Notes:

(a) Subsidiaries of the Company established in the PRC are required to transfer 10% of their net profit after tax, as calculated in accordance with the PRC accounting regulations, to the statutory surplus reserve until the reserve balance reaches 50% of their respective registered capital. The transfer of this reserve must be made before the distribution of dividend to the subsidiaries' equity owners. Such reserve may be used to reduce any losses incurred by the subsidiaries or be capitalised as paid-up capital of the subsidiaries.

(b) The capital reserve of the Group represents the excess of the nominal value of the aggregate share capital of the subsidiaries acquired pursuant to the group reorganisation prior to the listing of the Company's shares on the Stock Exchange over the nominal value of Company's shares issued in exchange thereof.

The capital reserve of the Company represents the difference between the combined net asset value of the subsidiaries acquired pursuant to the group reorganisation referred to above and the nominal value of the shares of the Company issued in exchange thereof.

33. DEFERRED TAX

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement in deferred tax assets and liabilities during the year is as follows:

Deferred tax liabilities

	Accelerated depreciation allowances		Revaluation of properties		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January	1,101	1,265	2,663	2,461	3,764	3,726
Acquisition of a subsidiary	–	158	–	–	–	158
Credited to consolidated income statement	(46)	(322)	–	–	(46)	(322)
Charged to equity	–	–	111	202	111	202
At 31 December	1,055	1,101	2,774	2,663	3,829	3,764

Deferred tax assets

	Tax losses	
	2006	**2005**
	HK$'000	*HK$'000*
At 1 January	1,987	2,219
Charged to consolidated income statement	(1,436)	(232)
At 31 December	551	1,987

The Group and the Company have not recognised deferred tax assets in respect of tax losses of HK$7,123,000 (2005: HK$5,348,000) and HK$3,853,000 (2005: HK$3,853,000) respectively due to the unpredictability of future profit streams.

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

On 17 December 2005, Pine Growth International Limited, a wholly owned subsidiary of the Group, entered into an agreement with Miracles For Fun, LLC, an independent third party in relation to the acquisition of 33% of the issued share capital of Miracles for Fun (HK) Limited ("MFF") (the "Acquisition"). MFF, an associate of the Group with 30% interests before the Acquisition, is incorporated in Hong Kong with limited liability and is engaged in trading of toys and decorative gifts. Upon completion of the Acquisition, the Group has 63% interests in the issued share capital of MFF and MFF becomes a non-wholly owned subsidiary of the Company.

	2006	**2005**
	HK$'000	*HK$'000*
Net assets acquired:–		
Property, plant and equipment	–	1,580
Trade and other receivables	–	808
Amount due to an associate	–	(2,849)
Tax recoverable	–	126
Cash at banks	–	529
Trade and other payables	–	(297)
Deferred tax liabilities	–	(158)
Net liabilities acquired	–	(261)
Goodwill	–	261
Consideration	–	–
Satisfied by:–		
Cash	–	–

Analysis of the net cash inflow of cash and cash equivalents in respect of the acquisition of a subsidiary:–

	2006	**2005**
	HK$'000	*HK$'000*
Cash consideration	–	–
Cash acquired	–	529
Net cash inflow in respect of the acquisition of a subsidiary	–	529

The acquired business contributed revenues of HK$627,000 and net loss of HK$17,000 to the Group for the period from 18 December 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been HK$76,279,000 and loss before allocations would have been HK$1,158,000.

(b) Disposal of subsidiaries

On 1 December 2006, Legend Wealth Holdings Limited ("Legend Wealth"), a wholly owned subsidiary of the Company entered into an agreement with Christopher Thomas Closson, the minority shareholder who held 49% interest in Jubilee Creation Inc. ("Jubilee"), a then non-wholly owned subsidiary of the Group, in relation to the disposal of the entire issued share capital of Pine Success Limited ("Pine Success"), a wholly owned subsidiary of Legend Wealth together with Jubilee, a 51% owned subsidiary of Pine Success ("the Disposal"). The entire issued share capital of Pine Success was disposed of for a consideration of HK$1 in accordance with the agreement.

	2006	**2005**
	HK$'000	*HK$'000*
Net assets disposed of:		
Interest in a jointly controlled entity	–	26,681
Property, plant and equipment	–	2,991
Prepayment and other receivable	327	–
Cash	–	27
Other payables and accruals	–	(2,393)
Capital contribution payable to a jointly controlled entity	–	(13,983)
Provision for tax	–	(2,963)
	327	10,360
(Loss)/Gain on disposal of subsidiaries	(327)	2,740
Consideration	–	13,100
Satisfied by:		
Cash	–	2,068
Receivable from a related company	–	11,032
	–	13,100

An analysis of the net cash inflow in respect of the disposal of subsidiaries is as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Cash consideration received	–	2,068
Cash disposed of	–	(27)
Net cash inflow in respect of the disposal of subsidiaries	–	2,041

35. OPERATING LEASE ARRANGEMENT

(a) As lessor

The Group leases its investment property under operating lease arrangement, with lease negotiated for a term of one year. The terms of the lease generally also require the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2006, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenant falling due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	23	25

(b) As lessee

The Group leases certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms of two years (2005: two years).

At 31 December 2006, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	270	178

(c) At 31 December 2006 and 2005, the Company did not have any operating lease commitments whether as lessee or lessor.

36. CAPITAL COMMITMENTS

In accordance with the Capital Contribution Agreement dated 2 September 2006 entered into between Bright Asset Investments Limited, a wholly owned subsidiary of the Group, and Beijing Minrunfeng Trading Co., Ltd. ("Mingrunfeng") which was subsequently approved by shareholders of the Company at an extraordinary meeting on 16 April 2007, the Group has to make capital contribution of RMB20 million (HK$20 million) to Mingrunfeng in return for 51% of the equity interest in Mingrunfeng (the "Capital Contribution"). RMB15 million (HK$15 million) deposit has been paid to Mingrunfeng on 15 September 2006, in accordance with the Capital Contribution Agreement.

Accordingly, the Group has capital commitment of RMB5 million (HK$5 million) for capital contribution in Mingrunfeng as of 31 December 2006.

The Company did not have any other significant capital commitment at the balance sheet date (2005: Nil).

37. CORPORATE GUARANTEES

At 31 December 2006, the Company has executed corporate guarantees to certain of its subsidiaries to the extent of HK$14 million (2005: HK$14 million) to secure a mortgage loan and general banking facilities granted by banks. The amounts utilised as of 31 December 2006 amounted to HK$8,684,000 (HK$7,276,000).

The Group did not have any significant contingent liabilities at the balance sheet date (2005: Nil).

In the opinion of the directors of the Company, no material liabilities will arise from the above guarantees which arose in the ordinary course of business and the fair value of the corporate guarantees granted by the Company is immaterial.

38. RETIREMENT BENEFITS SCHEMES

The Group operates a Pension Scheme and a MPF Scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the trustees. The employees of the subsidiaries in the PRC participate in the state-managed retirement benefits schemes operated by the relevant local government authority in the PRC. The subsidiaries are required to make contributions to the Schemes at a certain percentage of the basic salaries of their employees.

The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions.

The total cost charged to the consolidated income statement of HK$1,023,000 (2005: HK$818,000) represents contributions payable to the schemes by the Group at the rates specified in the rules of the schemes. At 31 December 2006 and 2005, no contributions due in respect of the reporting years had not been paid over to the schemes.

No employer's contribution was forfeited during the year. No unutilised forfeited contribution (2005: Nil) was available at 31 December 2006 to reduce the Group's future contributions.

The Group does not have any other pension scheme for its employees. In the opinion of the directors of the Company, the Group did not have any significant contingent liabilities as at 31 December 2006 in respect of the retirement of its employees.

39. CONNECTED AND RELATED PARTY TRANSACTIONS

The Group is controlled by Kiu Hung International Holdings Limited, a limited liability company incorporated and domiciled in Cayman Islands. The ultimate parent company of the Group is Legend Win Profits Limited, a company incorporated in British Virgin Islands.

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group had the following significant transactions with connected and related parties:

(i) Sales of goods

	2006	**2005**
	HK$'000	*HK$'000*
Sales of goods to Miracles for Fun (HK) Limited ("MFF"), an associate of the Group	–	2,524
Sales of goods to Marketing Resource Group, Inc., a jointly controlled entity	1,097	–

Sales to MMF were conducted in the normal course of business at prices and terms no less than those charged to and contracted with other third party customers of the Group.

On 17 December 2005, MFF became a non-wholly owned subsidiary of the Group (see details in note 34(a)). After then, all transactions and balances with MFF are eliminated on consolidation.

Sales to Marketing Resource Group, Inc. were conducted in the normal course of business at prices and terms no less than those charged to and contract with other third party customers of the Group.

(ii) Purchase of services

	2006	2005
	HK$'000	*HK$'000*
Product development, sale and marketing services provided by Mr. Sanders and Miracles For Fun (USA), Inc. to MFF	1,390	–

Mr. Sanders is a director and a beneficial owner of 32% of the total issued share capital of MFF, a non-wholly owned subsidiary of the Group. Mr. Sanders is also the sole owner of Miracles For Fun (USA), Inc.

(iii) Disposal of a subsidiary, Pine Success Limited, together with a non-wholly owned subsidiary

On 1 December 2006, Legend Wealth Holdings Limited ("Legend Wealth"), a wholly owned subsidiary of the Company entered into an agreement with Christopher Thomas Closson, the minority shareholder who held 49% interest in Jubilee Creation Inc. ("Jubilee"), a then non-wholly owned subsidiary of the Group, in relation to the disposal of the entire issued share capital of Pine Success Limited ("Pine Success"), a wholly owned subsidiary of Legend Wealth together with Jubilee, a 51% owned subsidiary of Pine Success ("the Disposal"). The entire issued share capital of Pine Success was disposed of for a consideration of HK$1 in accordance with the agreement. The impact of the Disposal on the Group is disclosed in note 34(b).

(iv) Interest income from a related company

On 19 April 2005, Legend Wealth Holdings Limited ("Legend Wealth"), a wholly owned subsidiary of the Company entered into an agreement with Kiu Hung Holdings Limited, a company beneficially owned by three executive directors of the Company in relation to the disposal of the entire issued share capital of Huge Profit Enterprises Limited ("Huge Profit"), a then wholly owned subsidiary of Legend Wealth. According to the agreement, the assets to be disposed of are the entire issued share capital of Huge Profit and the shareholder's loan in the sum of HK$14,029,904 owing by Huge Profit to Legend Wealth.

As at 31 December 2006, included in total consideration of HK$14,029,904, HK$3,000,000 (2005: HK$9,000,000) was still outstanding from Kiu Hung Holdings Limited and will be collected by the Group in one instalment (2005: three instalments). Such outstanding consideration has been recorded as amount due from a related company at amortised cost of HK$2,900,000 (2005: HK$8,132,000) (note 22) and the related interest income for the year is HK$768,000 (2005: HK$100,000).

40. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group's major financial assets and liabilities include available-for-sale financial assets, trade and other receivables, amount due from a related company, cash and bank balances, trade and other payables, and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

40.1 Foreign currency risk

Major subsidiaries of the Group operate in Mainland China with most of the transactions denominated in Renminbi. The Group is exposed to foreign exchange risk arising from the exposure of Renminbi against the Hong Kong dollars. It has not hedged its foreign exchange rate risk. However the management monitors foreign exchange exposure and will consider hedging significant currency exposure should the need arises.

40.2 Interest rate risk

The Group is exposed to interest rate risk through the impact of interest rate changes on interest bearing bank borrowings (bank borrowings carry interest at variable rate and fixed rate). The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 29. The Group currently does not have an interest rate hedging policy.

40.3 Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has formulated a defined fixed credit policy and delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivable regularly at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

40.4 Fair value

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

40.5 Liquidity risk

The Group ensures that it maintains sufficient cash, which is available to meet its liquidity requirements.

41. POST BALANCE SHEET EVENTS

41.1 Acquisitions of subsidiaries

On 16 January 2007, Bright Asset Investments Limited ("Bright Asset"), an indirectly wholly owned subsidiary of the Company entered into an agreement with the shareholder of Jumplex Investments Limited ("Jumplex") for the acquisition of the entire issued share capital of Jumplex and a shareholder loan owed by Jumplex to its shareholder at a consideration of approximately HK$14.6 million which will be satisfied by the allotment and issue of 44,350,175 consideration shares at an issue price of HK$0.33 per share (the "Jumplex Acquisition"). Jumplex holds a 12.24% equity interest in Beijing Mingrunfeng Trading Co., Ltd. ("Mingrunfeng") as of the date of this report. Upon completion of the Jumplex Acquisition, Jumplex will become a wholly-owned subsidiary of the Company. After taking into account of the effect of the Capital Contribution (note 36), 6% equity interest in Mingrunfeng held by Jumplex will be indirectly owned by the Company upon completion of the Jumplex Acquisition.

On 16 January 2007, Bright Asset entered into an agreement with the shareholder of First Choice Resources Limited ("First Choice") for the acquisition of the entire issued share capital of First Choice and a shareholder loan owed by First Choice to its shareholder at a consideration of approximately HK$19.5 million which will be satisfied by the allotment and issue of 59,103,859 consideration shares at an issue price of HK$0.33 per share (the "First Choice Acquisition"). First Choice holds a 16.33% equity interest in Mingrunfeng as of the date of this report. Upon completion of the First Choice Acquisition, First Choice will become a wholly-owned subsidiary of the Company. After taking into account of the effect of the Capital Contribution (note 36), 8% equity interest in Mingrunfeng held by First Choice will be indirectly owned by the Company upon completion of the First Choice Acquisition.

On 16 January 2007, Bright Asset entered into an agreement with the shareholders of Wise House Limited ("Wise House") for the acquisition of the entire issued share capital of Wise House at a consideration of approximately HK$46.3 million which will be satisfied by the allotment and issue of 140,338,246 consideration shares at an issue price of HK$0.33 per share (the "Wise House Acquisition"). Wise House holds a 38.78% equity interest in Mingrunfeng as of the date of this report. Upon completion of the Wise House Acquisition, Wise House will become a wholly-owned subsidiary of the Company. After taking into account of the effect of the Capital Contribution (note 36), 19% equity interest in Mingrunfeng held by Wise House will be indirectly owned by the Company upon completion of the Wise House Acquisition.

On 16 January 2007, Bright Asset entered into an agreement with Mr. Yang Runzhi ("Mr. Yang") for the acquisition of 16% equity interest in Mingrunfeng, after the completion of the Capital Contribution (note 36), at a consideration of approximately HK$39.0 million which will be satisfied by the allotment and issue of 118,207,720 consideration shares at an issue price of HK$0.33 per share (the "Second Acquisition").

The Jumplex Acquisition, the First Choice Acquisition, the Wise House Acquisition and the Second Acquisition have been approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 16 April 2007.

Upon completion of the Capital Contribution, the Jumplex Acquisition, the First Choice Acquisition, the Wise House Acquisition and the Second Acquisition, Mingrunfeng will become an indirect wholly-owned subsidiary of the Company.

The directors are currently assessing fair value of assets acquired from this transaction and accordingly an estimate of the goodwill arising from the acquisitions can not be made at this stage.

Please refer to the Company's circular dated 30 March 2007 for further details.

41.2 Loan facility agreements and draw downs in relation to Mingrunfeng

On 20 January 2007, Jumplex, First Choice, Wise House, Mingrunfeng, Mr. Yang and an independent third party entered into a loan facility agreement. Pursuant to the agreement, the lender has provided a loan in the amount of RMB1.5 million (equivalent to approximately HK$1.5 million) to Mingrunfeng which bear interest at a monthly rate of 1.5% and is repayable on or before 18 July 2007.

On 19 March 2007, Jumplex, First Choice, Wise House, Mingrunfeng and Mr. Yang further entered into two loan facility agreements with two independent third parties. Pursuant to the agreements, each of the two lenders will provide loans in the amount of RMB3 million (equivalent to approximately HK$3 million) to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The full amount of RMB6 million (equivalent to approximately HK$6 million) had been drawn by Mingrunfeng of which RMB3 million (equivalent to approximately HK$3 million) is due for repayment on or before 21 September 2007 and RMB3 million (equivalent to approximately HK$3 million) is due for repayment on or before 22 September 2007.

Pursuant to a loan agreement entered by Jumplex, First Choice, Wise House, and Mingrunfeng with an independent third party on 16 November 2006, the lender will provide a loan of RMB2 million (equivalent to approximately HK$2 million) to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable within six months from the drawn down date. Mingrunfeng has drawn down RMB0.5 million (equivalent to HK$0.5 million), RMB0.5 million (equivalent to HK$0.5 million) and RMB1 million (equivalent to HK$1 million) on 22 December 2006, 8 January 2007 and 27 March 2007, respectively. The loans are repayable on 22 June 2007, 8 July 2007 and 27 September 2007, respectively.

As of the date of report, Mingrunfeng has drawn down an aggregate amount of RMB9.5 million (equivalent to approximately HK$9.5 million) from the above loan facilities.

The above loan amounts are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang.

41.3 Loan facility agreement between Bright Asset and Mingrunfeng

On 22 September 2006, Bright Asset has entered into a loan facility agreement (the "Loan Facility Agreement") with Mingrunfeng. Pursuant to the Loan Facility Agreement, Bright Asset has agreed to provide Mingrunfeng a revolving loan facility of not exceeding RMB40 million (equivalent to approximately HK$40 million) (the "Loan Facility"). The Loan Facility shall be for a term of three years commencing from the date of the first drawdown made by Mingrunfeng. Bright Asset shall have the absolute discretion to demand Mingrunfeng to repay, in whole or in part, the principal and interest for the time being outstanding within 30 days upon giving a written notice to Mingrunfeng. The amount drawn under the Loan Facility shall bear interest at the rate of 3% per annum above the Hong Kong Dollar Prime Rate quoted by The Bank of China (Hong Kong) Limited from time to time, and is payable by Mingrunfeng on a quarterly basis. In addition, Mingrunfeng shall procure Mr. Yang, Jumplex, First Choice and Wise House to provide irrevocable guarantee to Bright Asset for any loan amount drawn by Mingrunfeng in proportion to their respective equity interest in Mingrunfeng from time to time.

The Loan Facility Agreement has been approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 16 April 2007.

41.4 Guarantee agreement

On 22 September 2006, Bright Asset, Mr. Yang, Jumplex, First Choice and Wise House entered into a guarantee agreement pursuant to which, after the approval of the Capital Contribution Agreement by the relevant government authorities and the completion of the necessary procedures to change the particulars in the business license of Mingrunfeng, Bright Asset, Mr. Yang, Jumplex, First Choice and Wise House shall provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to their respective equity interests in Mingrunfeng from time to time and in the form that the lenders of such loan facility may accept should the lenders of such loan facility demand for guarantee being provided by the shareholders of Mingrunfeng (the "Guarantee Agreement").

The Guarantee Agreement will still be valid after Mingrunfeng becomes a wholly-owned subsidiary of the Group. However, as Mr. Yang, Jumplex, First Choice and Wise House will not have any shares in Mingrunfeng and the Guarantee Agreement only requires that the shareholders provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to their respective shareholdings in Mingrunfeng, Mr. Yang, Jumplex, First Choice and Wise House will not be required to provide such guarantees upon completion of all the Capital Contribution, the Jumplex Acquisition, the First Choice Acquisition, the Wise House Acquisition and Second Acquisition.

The Guarantee Agreement has been approved by the shareholders of the Company at an extraordinary general meeting of the Company held on 16 April 2007.

41.5 Transfer of exploration license

On 10 March 2007, Mingrunfeng entered into a supplemental agreement (the "Supplemental Agreement") of the Co-Operation Agreement dated 15 June 2006 with Xilinguole Guoxin Mines Co., Ltd. ("Guoxin") in relation to the transfer of the exploration licence (the "Exploration License") of the Guerbanhada Coal Mine (the "Coal Mine"). Pursuant to the Supplemental Agreement, Guoxin will transfer the Exploration License to Mingrunfeng upon the payment by Mingrunfeng of (i) RMB5 million (HK$5 million) to Guoxin as prepayment of part of the 20% of the value of the exploration rights of the Coal Mine, being the consideration for the transfer of the Exploration License and (ii) RMB2,278,000 (HK$2,278,000) to the Department of Land and Resources of the Inner Mongolia Autonomous Region as the premium for the transfer of the Exploration License. The Supplemental Agreement also specified that any remaining cash consideration for the transfer of the Exploration License shall be paid to Guoxin within three months after the value of the exploration rights of the Coal Mine is being appraised by an independent valuation institution. Mingrunfeng has paid RMB5 million and RMB2,278,000 to Guoxin and the Department of Land and Resources of the Inner Mongolia Autonomous Region on 26 March 2007, respectively. The transfer of the Exploration License to Mingrunfeng has been completed on 2 April 2007.

41.6 Exercise of share option

Subsequent to the balance sheet date and up to the date of this report, a total of 8,935,200 share options have been exercised by the option holders which resulted in the allotment and issue of 8,935,200 new ordinary shares in the Company at an exercise price of HK$0.1016 per share for a total consideration of approximately HK$908,000.

3. INTERIM RESULTS

The following are the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2007 extracted from the interim report 2007 of the Company:

Condensed Consolidated Income Statement

	Notes	Six months ended 30 June 2007 (Unaudited) *HK$'000*	2006 (Unaudited) *HK$'000*
REVENUE	*3*	41,769	33,291
Cost of sales		(30,109)	(23,419)
Gross profit		11,660	9,872
Other income and gains	*3*	2,013	1,131
Distribution costs		(4,527)	(4,546)
Administrative expenses		(13,450)	(9,090)
Other operating expenses		(616)	(248)
OPERATING LOSS	*4*	(4,920)	(2,881)
Finance costs	*5*	(1,405)	(1,338)
Excess of fair value of net assets acquired on the cost of acquisitions of subsidiaries	*6*	141,442	–
Share of profit of a jointly controlled entity		116	–
PROFIT/(LOSS) BEFORE TAXATION		135,233	(4,219)
Taxation	*7*	(108)	(163)
PROFIT/(LOSS) FOR THE PERIOD		135,125	(4,382)
Attributable to:			
Equity holders of the Company		135,048	(4,382)
Minority interests		77	–
PROFIT/(LOSS) FOR THE PERIOD		135,125	(4,382)
INTERIM DIVIDEND	*8*	–	–
		HK cents	*HK cent* (Restated)
EARNINGS/(LOSS) PER SHARE FOR PROFIT/(LOSS) ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD	*9*		
– Basic		4.44	(0.16)
– Diluted		4.30	N/A

Condensed Consolidated Balance Sheet

	Notes	As at 30 June 2007 (Unaudited) HK$'000	As at 31 December 2006 (Audited) HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		62,044	63,877
Prepaid land lease payments		6,308	6,213
Investment property		400	400
Exploration rights	*10*	393,697	–
Other intangible assets		2,043	2,424
Deposit for acquisition of a company		–	15,000
Interest in a jointly controlled entity		739	623
Deferred tax assets		551	551
		465,782	89,088
CURRENT ASSETS			
Inventories		13,037	10,227
Trade and bills receivables	*11*	14,598	9,105
Prepayment, deposits and other receivables		2,447	1,716
Amount due from a jointly controlled entity		2,243	1,097
Amount due from a related company		–	2,900
Tax recoverable		14	153
Financial assets at fair value through profit or loss		286	286
Cash at banks and in hand		74,487	85,224
		107,112	110,708
CURRENT LIABILITIES			
Trade and bills payables	*12*	12,313	7,632
Other payables and accruals		11,654	4,902
Provision for tax		392	287
Bank and trust receipt loans		22,470	33,019
Other loans	*13*	16,958	–
Finance lease payables		7	47
		63,794	45,887
NET CURRENT ASSETS		43,318	64,821
TOTAL ASSETS LESS CURRENT LIABILITIES		509,100	153,909
NON-CURRENT LIABILITIES			
Bank loans		1,539	1,765
Finance lease payables		–	1
Deferred tax liabilities		3,871	3,829
		5,410	5,595
NET ASSETS		503,690	148,314
EQUITY			
Share capital	*14*	64,868	59,773
Reserves		376,843	86,945
Proposed final dividend		–	299
		441,711	147,017
Minority interests		61,979	1,297
TOTAL EQUITY		503,690	148,314

Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash inflow/(outflow) from operating activities	(5,654)	4,404
Net cash inflow from investing activities	3,466	2,727
Net cash inflow/(outflow) from financing activities	(7,438)	1,287
Net increase/(decrease) in cash at banks and in hand	(9,626)	8,418
Cash at banks and in hand at 1 January	85,224	48,034
Effect of foreign exchange rate changes	(1,111)	–
Cash at banks and in hand at 30 June	74,487	56,452

Condensed Consolidated Summary Statement Of Changes In Equity

		Six months ended 30 June	
		2007	**2006**
		(Unaudited)	(Unaudited)
	Notes	*HK$'000*	*HK$'000*
Opening balance – Total equity		148,314	100,165
Profit/(loss) for the period		135,125	(4,382)
Translation adjustments		3,408	–
Issue of consideration shares	*14*	153,223	–
Exercise of share options	*14*	1,115	–
Share-based compensation	*14*	2,200	–
Minority interest arising from			–
acquisition of subsidiaries		60,605	–
Payment of final dividend		(300)	–
Closing balance – Total equity		503,690	95,783

Notes to Condensed Financial Statements

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Hong Kong Accounting Standard ("HKAS") 34: Interim Financial Reporting and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards ("HKFRSs") issued by The Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 31 December 2006, except for the adoption of certain new and revised HKFRSs and HKASs issued by the HKICPA which are effective to the Group for accounting periods beginning on or after 1 January 2007 and the accounting policies relating to the coal mining and exploration segment as stated below. The adoption of the new HKFRSs and HKASs has no material impact on the Group's results and financial position for the current or prior periods.

The following new/revised standards and interpretations have been published and are relevant to the Group's operations but are not yet effective for the current accounting period:

HKFRS 8	Operating Segment
HKAS 23 (Revised)	Borrowing Costs
HK (IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK (IFRIC)-Int 12	Service Concession Arrangements

The Group has not early adopted any of the above standards or interpretations. Management is in the process of assessing the impact of these standards on the Group's results of operations and financial position.

Exploration and mining rights

Exploration and mining rights is measured at cost in the financial statements of individual subsidiaries. Expenditure associated with the grants or transfers of the exploration rights certificates and mining rights certificates and the exploration of mineral resources is capitalized. For business combination of newly acquired subsidiary, the exploration and mining rights is re-measured at fair value on the date of acquisition by the Group. Exploration and mining rights is assessed for impairment when the carrying amount of the exploration rights has exceeded its recoverable amount. Exploration and mining rights are amortised on a units-of-production method utilizing proved and indicated coal reserves as the depletion base.

These unaudited condensed consolidated interim financial statements have been reviewed by the audit committee of the Company and were approved by the board of directors on 24 September 2007.

2. SEGMENT INFORMATION

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and return that are different from those of the other business segments. Summary details of the business segments are as follows:

(i) the coal mining and exploration segment involves the mining and exploration of coal; and

(ii) the gifts and toys segment involves the manufacture and sales of a variety of gifts and toys products.

There was no inter-segment sale and transfer during the period (2006: Nil).

(a) Business segments

The following tables present revenue and results for the Group's business segments.

	Coal mining and exploration		Gifts and toys		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:						
Sales to external customers	–	–	41,769	33,291	41,769	33,291
Segment results	(76)	–	(2,182)	(3,029)	(2,258)	(3,029)
Unallocated other income					1,686	1,131
Unallocated expenses					(4,348)	(983)
Operating loss					(4,920)	(2,881)
Finance costs					(1,405)	(1,338)
Excess of fair value of net assets acquired on the cost of acquisitions of subsidiaries	141,442	–	–	–	141,442	–
Share of profit of a jointly controlled entity					116	–
Profit/(loss) before taxation					135,233	(4,219)
Taxation					(108)	(163)
Profit/(loss) for the period					135,125	(4,382)

(b) Geographical segments

The following tables present revenue and results for the Group's geographical segments.

	The PRC (including Hong Kong)		North America		European Union		Others		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:										
Sales to external customers	2,768	2,473	30,552	26,139	6,713	3,299	1,736	1,380	41,769	33,291
Segment results	(220)	(241)	(1,596)	(2,332)	(351)	(333)	(91)	(123)	(2,258)	(3,029)

3. REVENUE AND OTHER INCOME AND GAINS

Revenue represents the total invoiced value of goods sold, net of allowances for returns and trade discounts.

An analysis of the Group's revenue and other income and gains is as follows:

	Six months ended 30 June	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Revenue – sale of goods	41,769	33,291
Other income and gains		
Bank interest income	322	130
Other interest income	100	571
Rental income, net	11	13
Exchange gains, net	443	59
Sale of moulds	327	143
Others	810	215
	2,013	1,131

4. OPERATING LOSS

The Group's operating loss is arrived at after charging:

	Six months ended 30 June	
	2007	**2006**
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Depreciation	3,528	3,831
Amortisation of prepaid land lease payments	76	76
Amortisation of license rights	381	–
Employee benefit expense:		
Wages and salaries (including directors emoluments)	8,198	7,633
Pension and MPF costs	307	288
Share options granted to employees *(note 14)*	2,200	–
	10,705	7,921

5. FINANCE COSTS

	Six months ended 30 June 2007 (Unaudited) *HK$'000*	2006 (Unaudited) *HK$'000*
Interest on bank loans and trust receipt loans wholly repayable within five years	1,196	1,331
Interest on other loans	203	–
Interest on finance leases	6	7
	1,405	1,338

6. EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED ON THE COST OF ACQUISITIONS OF SUBSIDIARIES

The amount represents the excess of the Group's 84% interest in the net fair values of Inner Mongolia Mingrunfeng Energy Co., Ltd. ("Mingrunfeng", formerly known as Beijing Mingrunfeng Trading Co., Ltd.) over the costs of acquisitions incurred by the Group during the period. Further details of the acquisitions are set out in notes 10 and 14 to the financial statements.

7. TAXATION

	Six months ended 30 June 2007 (Unaudited) *HK$'000*	2006 (Unaudited) *HK$'000*
Income tax provision for the period:		
Hong Kong	108	106
Elsewhere	–	–
	108	106
Deferred tax	–	57
	108	163

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong for the period. Taxation for other jurisdiction is calculated at the rates prevailing in the respective jurisdiction.

8. INTERIM DIVIDEND

The Board has revolved not to pay any interim dividend for the period (2006: Nil).

9. EARNINGS/(LOSS) PER SHARE

The calculation of basic earning/(loss) per share is based on the profit attributable to the equity holders of the Company for the period of HK$135,048,000 (2006: loss of HK$4,382,000) and the weighted average of 3,039,395,352 (2006: 2,818,570,829 (restated)) ordinary shares in issue during the period.

The calculation of diluted earning per share for the period ended 30 June 2007 is based on the profit attributable to equity holders of the Company for the period of HK$135,048,000 and the weighted average of 3,138,097,910 ordinary shares after adjusting for the effects of all dilutive potential ordinary shares of the Company during the period.

Diluted loss per share for the period ended 30 June 2006 is not presented because the result of the exercise of potential ordinary shares during the period would be anti-dilutive.

10. EXPLORATION RIGHTS

The balance represents the fair value of the exploration rights of the Guerbanhada Coal Mine (the "Coal Mine") arising from the Group's acquisition of Mingrunfeng. As at 30 June 2007, the Group held an aggregate 84% equity interest in Mingrunfeng through the acquisitions (the "New Acquisitions") of the entire share capital of Jumplex Investments Limited ("Jumplex"), First Choice Resources Limited ("First Choice") and Wise House Limited ("Wise House") and the contribution of capital (the "Capital Contribution") to Mingrunfeng. Approval for the Capital Contribution has been obtained from the PRC government on 12 June 2007 and the Group has settled the remaining capital contribution balance of RMB 5 million subsequent to the balance sheet date on 9 July 2007. Further details of the New Acquisitions and the Capital Contribution were set out in the Company's circular dated 30 March 2007.

Mingrunfeng is the legal owner of the exploration rights certificate of the Coal Mine which is located in the Inner Mongolia Autonomous Region ("Inner Mongolia") of the People's Republic of China (the "PRC"). According to a technical report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd. ("SRK Consulting"), an independent mining and geological consultant, on 30 March 2007, the Coal Mine has estimated coal resource of 106 million tons at the general exploration stage of exploration of the Coal Mine. According to a coal reserve assessment report approved by the Department of Land and Resources of Inner Mongolia on 1 June 2007, the estimated coal resource of the Coal Mine has increased to 128.86 million tons upon completion of the detailed exploration stage of exploration of the Coal Mine. The detailed exploration stage of exploration is the final stage of exploration of the Coal Mine.

The exploration rights of the Coal Mine was valued by Castores Magi (Hong Kong) Limited, an independent firm of professional valuers, by adopting the income approach and the profit split method of valuation as at 29 May 2007 (the date of the Group's acquisition of Mingrunfeng) at a value of RMB383,067,000 (equivalent to approximately HK$393,697,000 by adopting the exchange rate as the balance sheet date).

11. TRADE AND BILLS RECEIVABLES

The Group's trading terms with its customers of the gifts and toys segment are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 1 month, extending up to 3 months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An ageing analysis of trade and bills receivables, net of provision, is as follows:

	As at 30 June 2007 (Unaudited) *HK$'000*	**As at 31 December 2006** (Audited) *HK$'000*
0-30 days	12,509	4,878
31-90 days	1,857	3,799
91-180 days	49	274
181-360 days	146	154
Over 360 days	37	–
	14,598	9,105

12. TRADE AND BILLS PAYABLES

An ageing analysis of trade and bills payables is as follows:

	As at 30 June 2007 (Unaudited) *HK$'000*	**As at 31 December 2006** (Audited) *HK$'000*
0-30 days	5,126	2,098
31-90 days	5,877	3,675
91-180 days	905	1,633
181-360 days	324	18
Over 360 days	81	208
	12,313	7,632

13. OTHER LOANS

The balance represented certain Renminbi denominated loans borrowed by Mingrunfeng from certain independent third parties. The loans were due for repayments on or before 31 March 2008 and bore the following interest rates:

Principal amount	**Interest rate**
RMB2,000,000	Interest free
RMB13,500,000	1.5% per month
RMB1,000,000	1.6% per month

The loans were guaranteed by Jumplex, First Choice and Wise House, being wholly owned subsidiaries of the Company which held an aggregate 33% equity interest in Mingrunfeng as at the balance sheet date, and Mr. Yang Runzhi, which was a minority shareholder interested in 16% equity interest of Mingrunfeng as at the balance sheet date. The Group has completed the acquisitions of Jumplex, First Choice and Wise House during the period, the details of which are set out in note 14 to the financial statements.

14. SHARE CAPITAL

	As at 30 June 2007 (Unaudited) *HK$'000*	**As at 31 December 2006** (Audited) *HK$'000*
Authorised:		
5,000,000,000 ordinary shares of HK$0.02 each	100,000	100,000

	Number of ordinary shares of HK$0.02 each	Par value *HK$'000*
Issued and fully paid:		
At 1 January 2007	2,988,657,000	59,773
Consideration shares issued for acquisitions of subsidiaries	243,792,280	4,876
New shares issued on exercise of share options	10,975,200	219
At 30 June 2007	3,243,424,480	64,868

During the period, the Group has completed the acquisitions of the entire issued share capital of Jumplex, First Choice and Wise House by the issue of 243,792,280 consideration shares. The fair value of such consideration shares were valued by RHL Appraisal Limited, an independent firm of professional valuers, at approximately HK$153,223,000 as at the date of issue and allotment of the shares on 29 May 2007.

Jumplex, First Choice and Wise House held an aggregate 33% equity interest in Mingrunfeng as at the balance sheet date. Mingrunfeng is the holder of the exploration rights of the Guerbanhada Coal Mine located in Inner Mongolia of the PRC. Further details of the acquisitions were set out in the Company's circular dated 30 March 2007.

Share options

The Company operates a share option scheme for eligible participants to subscribe for new shares of the Company. A summary of the terms of the share option scheme was disclosed in the Company's 2006 annual report.

During the period ended 30 June 2007, options were exercised to subscribe for 10,975,200 shares in the Company at an exercise price of HK$0.1016 per share while 217,600 share options have been lapsed. As at 30 June 2007, the Company had 109,767,200 outstanding share options with exercise price of HK$0.1016 per share. Subsequent to the balance sheet date, options were exercised to subscribe for 44,588,400 shares in the Company at an exercise price of HK$0.1016 per share.

Subsequent to the balance sheet date, the Company has granted 3,300,000 additional share options to an employee, which enable the employee to subscribe for 3,300,000 shares of the Company at an exercise price of HK$0.74 per share during the period from 1 July 2008 to 18 June 2016. Further details of such share options are set out in note 18(ii) to the financial statements.

During the period ended 30 June 2007, HK$2,200,000 (2006: nil) of the share-based payment has been charged to the condensed consolidated income statement (note 4) and the corresponding amount has been credited to the equity compensation reserve.

15. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group had the following significant transactions with connected and related parties:

(i) Sales of goods

	2007	**2006**
	HK$'000	*HK$'000*
Sales of goods to Marketing Resource Group, Inc., a jointly controlled entity	3,146	–

Sales to Marketing Resource Group, Inc. were conducted in the normal course of business at prices and terms no less favourable than those charged to and contracted with other third party customers of the Group.

(ii) Purchase of services

	2007	**2006**
	HK$'000	*HK$'000*
Product development, sales and marketing services provided by Mr. Sanders and Miracles For Fun (USA), Inc.	739	693

Mr. Sanders is a director and a beneficial owner of 32% of the total issued share capital of Better Sourcing Worldwide Limited (formerly known as Miracles For Fun (HK) Limited), a non-wholly owned subsidiary of the Group. Mr. Sanders is also the sole owner of Miracles For Fun (USA), Inc.

16. OPERATING LEASE ARRANGEMENT

(i) As lessor

At 30 June 2007, the Group had total future minimum lease receivables under non-cancellable operating lease with its tenant falling due as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	11	13

(ii) As lessee

At 31 December 2006, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2007	**2006**
	HK$'000	*HK$'000*
Within one year	117	89

17. CAPITAL COMMITMENTS

Pursuant to an acquisition agreement entered into between the Group and Mr. Yang Runzhi ("Mr. Yang"), the Group shall acquire 16% equity interest in Mingrunfeng held by Mr. Yang after completion of the Capital Contribution at a consideration of approximately HK$39 million which will be satisfied by the allotment and issue of 118,207,720 consideration shares at an issue price of HK$0.33 per share (the "Second Acquisition"). Subsequent to the balance sheet date, the Second Acquisition has been approved by the PRC government authorities on 19 September 2007.

Further details of the Second Acquisition were set out in the Company's circular dated 30 March 2007.

The Company did not have any other significant capital commitment at the balance sheet date (2006: Nil).

18. POST BALANCE SHEET EVENTS

Save as disclosed elsewhere in the financial statements, the Group had the following post balance sheet events:

(i) Acquisition of subsidiaries

On 16 August 2007, the Group entered into an acquisition agreement with Gold Dynasty Investments Limited (the "Vendor") to acquire the entire issued share capital of Lucky Dragon Resources Limited ("Lucky Dragon") at a total consideration of HK$840 million (subject to certain adjustments). If no adjustment has to be made to the total consideration, HK$160 million shall be settled by cash, HK$420 million shall be settled by the allotment and issue of 600 million consideration shares at an issue price of HK$0.7 per share and HK$260 million shall be settled by the issue of convertible notes with a conversion price of HK$0.7 per conversion share. Lucky Dragon owns the entire equity interest in Tongliao City Heng Yuan Mining Company Limited which in turn owns (i) the mining rights of the Huanghuashan Coal Mine and (ii) the exploration rights of the Bayanhushuo Coalfield. Mr. Yu Won Kong, Dennis, a substantial shareholder of the Company who is interested in approximately 10.48% of the issued share capital of the Company as at the date of this report, is a director of and beneficially interested in 22.5% of the issued share capital of the Vendor. Details of the acquisition agreement were set out in the Company's announcement dated 4 September 2007.

(ii) Exercise and grant of share options

Subsequent to the balance sheet date and up to the date of this report, a total of 44,588,400 share options have been exercised by the option holders which resulted in the allotment and issue of 44,588,400 new ordinary shares in the Company at an exercise price of HK$0.1016 per share for a total consideration of approximately HK$4,530,000.

Subsequent to the balance sheet date on 5 July 2007, the Company has granted 3,300,000 share options to an employee, which enable the employee to subscribe for 3,300,000 shares of the Company at an exercise price of HK$0.74 per share during the period from 1 July 2008 to 18 June 2016. The 3,300,000 share options will be vested to the employee in 3 lots of 1,100,000 share options each for the periods from 1 July 2008 to 30 June 2009, from 1 July 2009 to 30 June 2010, and from 1 July 2010 to 30 June 2011, respectively.

4. RECONCILIATION STATEMENT

A reconciliation of the net book value of the relevant land use rights and properties as of 30 June 2007 to their unaudited net book values of property interests, as stated in Appendix VI to this circular, is set out as follows:

	Investment property	Buildings	Leasehold land and buildings	Prepaid land lease payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Net book value as of 30 June 2007	400	25,418	19,595	6,308	51,721
Movements for period from 1 July 2007 to 30 November 2007:					
– Depreciation/Amortisation	–	(473)	(310)	(61)	(844)
– Others	–	615	210	153	978
Net book value as of 30 November 2007	400	25,560	19,495	6,400	51,855
Valuation appreciation	–	720	1,001	63,740	65,461
Valuation as of 30 November 2007 as per Appendix VI of this circular	400	26,280	20,496	70,140	117,316

5. INDEBTEDNESS

Borrowings

As at 30 November 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following outstanding borrowings:

	Non-current portion	Current portion	Total
	HK$'000	*HK$'000*	*HK$'000*
Short-term bank loans, secured	–	8,421	8,421
Short-term bank loans, unsecured	–	4,421	4,421
Trust receipt loans, unsecured	–	2,034	2,034
Finance lease payables, secured	–	2	2
Long-term bank loans, secured	1,324	478	1,802
Other loans, unsecured	–	23,684	23,684
Amounts due to a shareholder of Lucky Dragon, unsecured	–	38,760	38,760
	1,324	77,800	79,124

Contingent Liabilities

As at 30 November 2007, the credit facilities of the Enlarged Group were supported by the following:

(i) first legal charges on certain of the Group's prepaid land lease payments, buildings and leasehold land and buildings with carrying values of approximately HK$465,000, HK$10,115,000 and HK$10,180,000 respectively;

(ii) charges over certain equipment with carrying amount of approximately HK$29,000;

(iii) guarantees given by a director of a subsidiary in the amount of approximately HK$16,316,000 (RMB15,500,000).

Save as aforesaid and apart from intra-group liabilities, as at 30 November 2007, the Enlarged Group had no debt securities issued and outstanding, and authorised or otherwise created but unissued, term loans, distinguishing between guaranteed, unguaranteed, secured and unsecured, and guaranteed, unguaranteed, secured and unsecured bank borrowings including, bank loans and overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credit, hire purchase or finance lease commitments, guarantees or other material contingent liabilities.

Save as disclosed in this paragraph "Indebtedness", the Directors confirmed that there has not been any material adverse charge in the indebtedness and contingent liabilities of the Enlarged Group since 30 November 2007.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest audited financial statements of the Company were made up.

7. WORKING CAPITAL

The Enlarged Group will require a total additional funds of approximately HK$906 million for the two-year period following the issue of this circular. Such funding requirement include i) approximately HK$547 million (equivalent to approximately RMB520 million) for the construction of the Xi Meng Coal Mine and the application of relevant licenses and permits for coal production, ii) approximately HK$76 million (equivalent to approximately RMB72 million) for improvement project of the production facilities of the Huanghuashan Coal Mine, iii) approximately HK157 million for payment of the remaining balance of the cash portion of the Consideration; and iv) approximately HK$126 million (equivalent to approximately RMB120 million) for the construction of the coal mine of Mingrunfeng. The Group's toy and gift business will not have any material funding requirement for the two-year period following the issue of this circular.

The Directors estimated that, for the two years following the issue of this circular, the Group will have (i) cash inflows of approximately HK$1,796 million arising from the sales of toys and coal and the additional funds to be raised and (ii) cash outflows of approximately HK$1,430 million arising from the operations of the toys and coal businesses, capital expenditure incurred for the construction of the coal mines and payment for the remaining balance of the cash Consideration. Accordingly, the Group will have net cash inflow of approximately HK$366 million for the two years following the issue of this circular.

Subject to the successful raising of approximately HK$906 million by equity and/or debt financing and taking into the account the financial resources available to the Enlarged Group, including internally generated funds, the available banking facilities and future fund raising of approximately HK$906 million, the Directors are of the opinion that the Enlarged Group will have sufficient working capital for its present requirements for at least the next 24 months from the date of publication of this circular in the absence of unforeseeable circumstances.

The Directors plan to finance the future funding requirements of approximately HK$906 million by (i) issue of new shares, (ii) issue of convertible bonds, (iii) bank and other borrowings or (iv) a combination of the above.

8. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF THE GROUP FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2004, 2005 AND 2006

For the year ended 31 December 2004

Business Review and Prospects

During the year under review, the Group continues to engage in the design, manufacture and sale of toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KITECH. During the year under review, revenue from toys and decorative gift items was approximately HK$39.8 million and HK$40.9 million, respectively (2003: approximately HK$52.8 million and HK$31.2 million, respectively), accounting for approximately 49% and 51% of the Group's total turnover, respectively.

The year of 2004 was a difficult year for the operations of the Group. Turnover and profitability decreased as a result of the intense competition in the People's Republic of China (the "PRC") toy and gift market. The surge in raw material costs resulting from the rise in crude oil price and the PRC labour shortage further affected the profitability of the Group. In addition, the Group has made a provision of approximately HK$3.7 million in connection with the impairment of certain production and distribution rights, which contributed to the overall loss for the year under review.

We believe the year of 2005 will continue to be difficult for the toy and gift industries due to fierce competition, high raw material costs and the PRC labour shortage. Moving forward, the Group will continue to invest in research and development and to develop new series of products with add-on features and functions. The Group will continue to expand its sales team and distribution channels in North America, Europe and the PRC. The Group will explore co-operation opportunity with famous brandnames and retail chain stores to increase its marketing efforts and broaden its customer base. In addition, the Group will continue to explore other investment opportunities that have earning potentials to expand its existing operations and to diversify its business.

Subsequent to the year under review, the Group has liquidated its investment in the spandex business by disposing its interest in Sangyang Spandex Co. Ltd. ("Sangyang Spandex") on 19 April 2005. As Sangyang Spandex has not commenced any operation, the disposal would have negligible impact on the business operations of the Group. Details of the disposal are set out in the Company's announcement dated 25 April 2005.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the PRC. During the year under review, cash generated across the Group remained strong, with approximately HK$12.2 million being generated from operating activities. The Group recorded a net inflow of approximately HK$7.5 million during the year, which increased the total cash and bank balances to approximately HK$56.6 million as at the balance sheet date. The Group's cash and bank balances are mostly held in Hong Kong dollars and Renminbi.

The Group's bank and other borrowings are made in Hong Kong dollars and Renminbi, approximately 76% of such borrowings bear interest at fixed lending rate. At 31 December 2004, the Group's bank and other borrowings amounted to approximately HK$33.1 million, out of which approximately 91% is repayable within one year. The gearing ratio of the Group at 31 December 2004 calculated as a ratio of total bank and other borrowings to total assets is approximately 14% (2003: 14%). Net current assets at 31 December 2004 was approximately HK$6.6 million and current ratio was at a healthy level of approximately 111%. The Group had not used any financial instruments for hedging purposes during the year under review.

At 31 December 2004, certain of the Group's leasehold land and buildings with carrying values of approximately HK$104.5 million, were pledged to secure general banking facilities granted to the Group.

Employment, Training and Development

At 31 December 2004, the Group has a total of 1,021 employees. The Group always maintains good working relations with its employees and has committed itself to its staff training and development.

Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance and industrial practice. Up to the date of this report, no share option had been granted under the share option scheme adopted by the Company.

For the year ended 31 December 2005

Business Review and Prospects

During the year under review, the Group continues to engage in the design, manufacture and sale of toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KITECH. During the year under review, revenue from toys and decorative gift items was approximately HK$31.8 million and HK$35.7 million, respectively (2004: approximately HK$39.8 million and HK$40.9 million, respectively), accounting for approximately 47% and 53% of the Group's total turnover, respectively.

The year of 2005 was challenging for the operations of the Group. Turnover decreased as a result of the intense competition in the People's Republic of China (the "PRC") toy and gift markets. Nevertheless, the Group managed to significantly narrow its net losses from approximately HK$11.9 million in 2004 to approximately HK$0.04 million in 2005 as a result of the development of new products with value-added features to enhance product profitability and the implementation of various cost control measures by the Group. During the year, the Group has increased its interest in Miracles For Fun (HK) Limited ("MFF") from 30% to 63%. MFF is principally engaged in the design and sale of a wide range of toys and decorative gift items. We believe that such acquisition will expand the customer base of the Group and provide cross-selling opportunities between the Group and MFF. Details of the acquisition are set out in the Company's announcement and circular dated 30 December 2005 and 13 January 2006, respectively.

During the year, the Group has liquidated its investment in the spandex business by disposing its interest in Sangyang Spandex Co. Ltd. ("SY Spandex"). As SY Spandex had not commenced any operation, the disposal had negligible impact on the business operations of the Group. Details of the disposal are set out in the Company's announcement and circular dated 25 April 2005 and 1 June 2005, respectively.

Looking forward, we are optimistic about the performance of the Group as the global economy continues to flourish. The Group will continue to strengthen its foothold in the toys and gifts business though the development of products with add-on features and functions. The Group will continue to expand its sales team and distribution channels in North America, Europe and the PRC and to explore co-operation opportunity with famous brandnames and retail chain stores to increase its marketing efforts and broaden its customer base. In addition, the Group will continue to explore other investment opportunities that have earning potentials to expand its existing operations and to diversify its business. With the committed efforts of the staff and management, we are confident and optimistic on the prospects of the Group.

Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the PRC. During the year under review, the Group recorded a net cash outflow of approximately HK$9.2 million, which decreased the total cash and bank balances to approximately HK$48.0 million as at the balance sheet date. The Group's cash and bank balances are mostly held in Hong Kong dollars and Renminbi.

The Group's bank and other borrowings are made in Hong Kong dollars and Renminbi, approximately 77% of such borrowings bear interest at fixed lending rate. At 31 December 2005, the Group's bank and other borrowings amounted to approximately HK$32.9 million, out of which approximately 93% is repayable within one year. The gearing ratio of the Group at 31 December 2005 calculated as a ratio of total bank and other borrowings to total assets is approximately 21% (2004: 20%). Net current assets at 31 December 2005 was approximately HK$28.7 million and current ratio was at a healthy level of approximately 160%. The Group had not used any financial instruments for hedging purposes during the year under review.

At 31 December 2005, certain of the Group's buildings and leasehold land and buildings with carrying values of approximately HK$10.2 million and HK$9.3 million, respectively, were pledged to secure general banking facilities granted to the Group.

Employment, Training and Development

At 31 December 2005, the Group has a total of 1,053 employees. The Group always maintains good working relations with its employees and has committed itself to its staff training and development.

Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance and industrial practice. Up to the date of this report, no share option had been granted under the share option scheme adopted by the Company

For the year ended 31 December 2006

Business and Operational Review

During the year under review, the Group continues to engage in the design, manufacture and sale of toys as well as decorative gift items on an OEM and ODM basis and under the Group's own brandnames KCARE and KITECH. In 2006, revenue from toys and decorative gift items was approximately HK$49.1 million (2005: HK$31.8 million) and HK$47.5 million (2005: HK$35.7 million), respectively, accounting for approximately 51% and 49% respectively of the Group's total turnover. The North American market remained to be the most important market segment and accounted for approximately 73% (2005: 72%) of the Group's turnover. The increase in distribution costs by approximately 39% from approximately HK$6.6 million in 2005 to approximately HK$9.2 million for the year was consistent with the increase in the Group's turnover over the preceding year. The administrative expenses of the Group increased by approximately 44% from approximately HK$17.7 million in 2005 to approximately HK$25.5 million in 2006. Apart from the overall increase in administrative expenses as a result of the expansion of our Group's operations, the amortisation of share option costs of approximately HK$4.6 million recognised in 2006 in relation to share options being granted to our staff during the year also contributed to such increase. Such recognition of share option costs was made in accordance with the relevant Hong Kong Financial Reporting Standards and did not have any impact on the cash flow of the Group for the year.

The toys and gifts market for the year of 2006 remained competitive. Nevertheless, the Group was able to increase its sales by approximately 43% as we have intensified our marketing campaign in order to broaden our sales channel in North America and Europe. During the year, new orders have been received from a number of renowned customers. Gross profit margin has also improved from approximately 33.8% in 2005 to approximately 36.8% in 2006 as the management has rectified its operational management and improved its production efficiency. In addition, the management has developed new products with value-added features to enhance product profitability. With the increase in turnover and improvement in profit margin, the Group managed to turnaround and became profitable for the year.

During the year, we commenced the distribution of decorative flags and garden products through the "Toland" brand name with an aim to increase our product variety and to improve our competitiveness in the decorative flags and garden products market. In order to strengthen the sales and marketing activities and to facilitate the research and development functions, we have also established a jointly controlled entity in the United States which is responsible for the marketing and development of our decorative flags and garden products for the North American market.

In 2006, the Group has become a licensed supplier for the mascot toy products of the Beijing 2008 Olympic. We have obtained the license to manufacture different toys categories including plush toys, plastic toys, inflatable toys and electronic toys. In addition, we are the sole manufacturer who is able to produce nano-technology plush toys by applying the licensed Swedish Texcote Technology. With environmental friendly features of water repellence, stain resistance and anti-bacteria, our nano-technology mascot toys have received encouraging response in the PRC market.

Material Acquisitions

On 2 September 2006, the Group entered into a capital contribution agreement to contribute RMB20 million to the registered capital in Mingrunfeng in return for a 51% equity interest in Mingrunfeng. On 22 September 2006, the Group entered into agreements to provide a revolving loan facility of not exceeding RMB40 million to Mingrunfeng and to provide guarantees for any future loan facility which may be secured by Mingrunfeng in proportion to the Group's equity interest in Mingrunfeng, subject to the terms and conditions of such agreements. Subsequent to the year end date on 16 January 2007, the Group further entered into various acquisition agreements with the original shareholders of Mingrunfeng to acquire all the remaining equity interest of Mingrunfeng at a consideration of approximately HK$119.5 million to be satisfied by the issue and allotment of 362,000,000 consideration shares at an issue price of HK$0.33 per share. Details of the agreements and the acquisitions were set out in the Company's announcements dated 26 September 2006 and 1 February 2007, and in the Company's circular dated 30 March 2007. The acquisitions of Mingrunfeng, the loan facility agreement and the guarantee agreement have all been approved by the shareholders of the Company at an extraordinary general meeting held on 16 April 2007. The Group is currently undergoing the related procedures to effect the acquisitions of the entire equity interest in Mingrunfeng and the acquisitions is expected to be completed in due course.

Mingrunfeng is the legal owner of the exploration right of a coal mine in Xilinguolemeng of the Inner Mongolia Autonomous. The coal mine has a site area of approximately 24.91 square kilometres and is located close to highways and railways. According to an independent technical assessment report issued by Steffen Robertson and Kirsten (Australasia) Pty Ltd.("SRK Consulting"), the coal mine has estimated coal resource of 106 million tones and has an excellent potential to be developed into an economic open cut coal mine servicing the domestic thermal market. In addition, SRK Consulting concluded that there appears to be no issues that may cause significant impact on the mining of the coal mine as it has no igneous intrusions and little or no structural features. The current on site market price for the coal of the coal mine is around RMB160 per tonne.

Liquidity and Financial Resources

The Group generally financed its operations with internally generated cash flow and facilities provided by its principal bankers in Hong Kong and in the PRC. During the year under review, positive cash flow was being generated across the Group, with approximately HK$10.6 million being generated from operating activities (2005: cash outflow of HK$5.1 million). The Group recorded a net cash inflow of approximately HK$36.3 million during the year (2005: cash outflow of HK$9.2 million), which increased the total cash and bank balances to approximately HK$85.2 million as at the balance sheet date. The Group's cash and bank balances are mostly held in Hong Kong dollars and Renminbi.

The Group's bank and other borrowings are made in Hong Kong dollars and Renminbi, approximately 75% (2005: 75%) of such borrowings bear interest at fixed lending rates. At 31 December 2006, the Group's bank and other borrowings amounted to approximately HK$34.8 million (2005: HK$32.9 million), out of which approximately 95% (2005: 93%) is repayable within one year. The gearing ratio of the Group at 31 December 2006, calculated as a ratio of total bank and other borrowings to total assets, was approximately 17% (2005: 21%). Net current assets at 31 December 2006 were approximately HK$64.8 million (2005: HK$28.7 million) and current ratio was maintained at a healthy level of approximately 241% (2005: 160%). As the majority of the Group's transactions and borrowings were denominated in Hong Kong dollars, United States dollars and Renminbi, the Group's exposure to exchange rate fluctuation was relatively insignificant and the Group had not used any financial instruments for hedging purposes during the year under review.

At 31 December 2006, certain of the Group's buildings and leasehold land and buildings with carrying values of approximately HK$10.2 million (2005: HK$10.2 million) and HK$9.9 million (2005: HK$9.3 million), respectively, were pledged to secure general banking facilities granted to the Group.

As at 31 December 2006, the Group had capital commitment of RMB5 million, being the remaining balance of the capital contribution payable to Mingrunfeng. Further details of the Group's capital commitments are set out in note 36 to the financial statements.

The Group did not have any other material contingent liabilities as at 31 December 2006.

Capital Structure and Use of Proceeds

As at 31 December 2006, the capital structure of the Company was constituted of 2,988,657,000 ordinary shares of HK$0.02 per share. Apart from ordinary shares in issue, the capital instruments in issue of the Company include options to subscribe for shares in the Company. During the year, 120,960,000 share options were granted under the share option scheme adopted by the Company with an exercise price of HK$0.1016 per share. No share option was exercised during the year and all 120,960,000 share options remained outstanding as at 31 December 2006. Subsequent to 31 December 2006 and up to the date of this report, 8,935,200 share options have been exercised by the option holders.

During the year under review, 774,837,000 new shares were issued by the Company as a result of the open offer of new shares on the basis of seven offer shares for every twenty existing shares held by the shareholders. The subscription price for each offer share was HK$0.05 and a net proceed of approximately HK$37 million was raised by the Company. The board of directors intends to apply the net proceeds as to (i) approximately HK$2 million towards upstream and downstream integration in the principal line of business of the Group to enhance its profitability, including but not limited to the distribution of fabrics or chemical products or the production of packaging materials; (ii) approximately HK$25 million towards possible diversified investments in the agricultural, energy and/or resources industries or other projects which the Board considers appropriate; and (iii) the remaining balance of approximately HK$10 million for general working capital of the Group. Further details of the open offer were set out in the Company's announcement and prospectus dated 6 July 2006 and 31 July 2006, respectively.

As at 31 December 2006, HK$15 million of the net proceeds of the open offer was paid by the Group as deposit in relation to the capital contribution of Mingrunfeng.

Other than the foregoing, the proceeds from the Company's issue of new shares at the time of its listing on the Stock Exchange on 22 January 2001, after deduction of related expenses, amounted to approximately HK$43 million. The proceeds were applied in accordance with the proposed applications set out in the Company's prospectus dated 9 January 2001, as follows:

- approximately HK$5 million was used for developing new models and new products;

- approximately HK$5 million was used for the acquisition of new machinery and auxiliary equipment;

- approximately HK$10 million was used for establishing retail outlets and developing distribution channels in major cities in the PRC; and

- approximately HK$18 million was used as general working capital of the Group.

The Group has placed the unused balance of the net proceeds with licensed banks in Hong Kong and the People's Republic of China. These deposits have been receiving reasonable and steady interest income which preserves the best interests of the Group and the shareholders.

Employment, Training and Development

At 31 December 2006, the Group had a total of 1,085 employees. The Group always maintains good working relations with its employees and has committed itself to staff training and development.

Remuneration packages are maintained at a competitive level and reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance and industrial practice. The Company also maintains a share option scheme pursuant to which share options can be granted to provide incentive to the staff. During the year, 120,960,000 share options have been granted under the share option scheme adopted by the Company.

The following is the text of a report, prepared for the purpose of incorporation in this circular, from Cachet Certified Public Accountants Limited in respect of the accountants' report on Lucky Dragon and Heng Yuan as set out in this appendix:

CACHET

Cachet Certified Public Accountants Limited

德揚會計師事務所有限公司

31 January 2008

The Directors
Kiu Hung International Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Lucky Dragon Resources Limited (運龍資源有限公司) ("Lucky Dragon"), and Tongliao City Heng Yuan Mining Company Limited (通遼市恒源礦業有限責任公司) ("Heng Yuan"), including the income statements, statements of changes in equity and cash flow statements of Lucky Dragon for the period from 30 April 2007 (date of incorporation) to 31 July 2007 and of Heng Yuan for the period from 11 January 2005 (date of registration) to 31 December 2005, for the year ended 31 December 2006 and for the period from 1 January 2007 to 31 July 2007 (the "Relevant Periods") and of the balance sheets of Lucky Dragon as at 31 July 2007 and of Heng Yuan as at 31 December 2005 and 2006 and 31 July 2007 and notes thereto (the "Financial Information") for inclusion in the circular of Kiu Hung International Holdings Limited (the "Company") dated 31 January 2008 (the "Circular").

Lucky Dragon is a company incorporated in the British Virgin Islands with limited liability on 30 April 2007. It has not commenced business during the Relevant Periods save for the entering of an agreement dated 19 July 2007 to acquire the entire equity interest in Heng Yuan (the "Lucky Dragon Agreement").

Pursuant to the terms of the Lucky Dragon Agreement, Lucky Dragon shall settle the consideration to the pre-existing shareholders of Heng Yuan as follows:

a) a fixed consideration of RMB32 million not subject to any adjustment; and

b) an adjustable consideration based on the amount of coal reserves as assessed by an independent PRC exploration company at the general exploration stage on the Xi Meng Coal Mine situated in Tongliao City of Inner Mongolia ("Xi Meng Coal Mine") will be added in the event that:

   (i) if the amount of coal reserves of the Xi Meng Coal Mine is less than 200 million tons, Lucky Dragon shall pay RMB0.16 per ton of total coal reserves;

(ii) if the amount of coal reserves of the Xi Meng Coal Mine is more than 200 million tons but less than 300 million tons, Lucky Dragon shall pay RMB0.2 per ton of total coal reserves; or

(iii) the amount of coal reserves of the Xi Meng Coal Mine is more than 300 million tons, Lucky Dragon shall pay RMB60 million (which is equivalent to RMB0.2 per ton of coal for the initial 300 million tons of coal reserves) plus RMB0.1 per ton of additional coal reserves in excess of the initial 300 million tons.

Heng Yuan is an enterprise established in the People's Republic of China (the "PRC") with limited liability on 11 January 2005 and has principally engaged in coal mining and the sale of mine products other than noble metal and iron ore. Heng Yuan owns (i) the mining rights and other relevant operation facilities and properties in relation to the Huanghuashan Coal Mine situated in Tongliao City of Inner Mongolia and (ii) the exploration rights of the Xi Meng Coal Mine situated in Xilinguolemeng of Inner Mongolia. Mining rights allow the owner of the mining license to exploit and sell the coal resources, while exploration rights allow the owner of the exploration license to perform exploration works on the coal mine.

As at the date of this report, no audited financial statements have been prepared for Lucky Dragon since its date of incorporation. We have, however, reviewed all relevant transactions of Lucky Dragon since its date of incorporation to 31 July 2007, and carried out such procedures as we considered necessary. For the purpose of this report, the sole director of Lucky Dragon has prepared the financial statements of the Lucky Dragon for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have performed an independent audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA of the Underlying Financial Statements of Lucky Dragon for the Relevant Periods.

Heng Yuan has its statutory financial statements prepared in accordance with the accounting principles and regulations applicable to enterprises established in the PRC. These statutory financial statements were audited by LiaoNing ZhengXin Accountant Management Co. Limited (通寧政信會計師事務所有限公司) in the PRC for the period from 11 January 2005 (date of registration) to 15 July 2007. For the purpose of this report, the sole director of Heng Yuan has prepared the financial statements of Heng Yuan for the Relevant Periods in accordance with HKFRSs (the "Underlying Financial Statements"). We have performed an independent audit in accordance with HKSA of the Underlying Financial Statements of Heng Yuan for the Relevant Periods.

We have examined the audited financial statements or, where appropriate, management accounts of Lucky Dragon and Heng Yuan for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline 3.304 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information as set out in this report has been prepared from the audited Underlying Financial Statements, or where appropriate, management accounts of the Lucky Dragon and Heng Yuan, after making such adjustments where appropriate.

The sole director of Lucky Dragon and directors of Heng Yuan are responsible for the preparation of the Financial Information of Lucky Dragon and Heng Yuan, respectively, which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

The sole director of the Lucky Dragon and directors of Heng Yuan are responsible for the contents of the Circular in which this report is included.

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the state of affairs of Lucky Dragon as at 31 July 2007 and of Heng Yuan as at 31 December 2005 and 2006 and 31 July 2007, and of the results and cash flows of Lucky Dragon and Heng Yuan for the Relevant Periods.

The comparative financial information of Heng Yuan including the income statement, statement of changes in equity and cash flow statement for the seven months ended 31 July 2006 and notes thereto (the "July 2006 Comparative Financial Information") has been extracted from the financial information for the same period which was prepared by the directors of Heng Yuan solely for the purpose of this report. We have reviewed the July 2006 Comparative Financial Information of Heng Yuan in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consists principally of making enquiries of Heng Yuan's management and applying analytical procedures to the July 2006 Comparative Financial Information of Heng Yuan and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the July 2006 Comparative Financial Information of Heng Yuan.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the July 2006 Comparative Financial Information of Heng Yuan.

I. SIGNIFICANT ACCOUNTING POLICIES

1 BASIS OF PRESENTATION AND GOING CONCERN

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

As at 31 July 2007, Lucky Dragon had net current liabilities and deficiency in assets of HK$30,000 and HK$30,000, respectively. In preparing the Financial Information, the sole director of Lucky Dragon has given careful consideration to the current and anticipated future liquidity of Lucky Dragon, such going concern basis is based upon the presumption of continuous financial support from a shareholder of Lucky Dragon. A shareholder of Lucky Dragon has indicated his willingness to continue financing the operations of Lucky Dragon and has agreed not to demand repayment of the amounts due to him until Lucky Dragon is in a position to do so. Accordingly, the Financial Information has been prepared on a going concern basis and does not include any adjustments that would be necessary should such financial support is not obtained.

As at 31 December 2005 and 2006 and 31 July 2007, Heng Yuan had net current liabilities of HK$18,618,000, HK$21,058,000 and HK$2,996,000 and deficiency in assets as at 31 December 2005 and 2006 of HK$225,000 and HK$586,000, respectively. In preparing the Financial Information, the sole director of Heng Yuan has given careful consideration to the current and anticipated future liquidity of Heng Yuan, such going concern basis is based upon the presumption of continuous financial support from Lucky Dragon, a holding company of the Heng Yuan upon the completion of Lucky Dragon Agreement. Lucky Dragon has indicated his willingness to continue financing the operations of Heng Yuan and has agreed not to demand repayment of the amounts due to him until Heng Yuan is in a position to do so. Accordingly, the Financial Information has been prepared on a going concern basis and does not include any adjustments that would be necessary should such financial support is not obtained.

2 EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on or after 1 January 2006. Heng Yuan has early adopted these new and revised HKFRSs in preparing the Financial Information for the period ended 31 December 2005. The adoption of these new and revised HKFRSs did not have any significant impact on its results of operations and financial position.

The HKICPA has also issued the following standards and interpretations that are not yet effective. Lucky Dragon and Heng Yuan have considered the following standards and interpretations but do not expect they will have a material effect on how the results of operations and financial position of Lucky Dragon and Heng Yuan are prepared and presented.

HKAS 1 Amendment	Capital disclosures[4]
HKFRS 7	Financial Instruments: Disclosures[4]
HKFRS 8	Operating Segments[5]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[1]
HK(IFRIC) – INT 8	Scope of HKFRS 2[2]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[3]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangement[8]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[9]
HK(IFRIC) – INT 14	HKAS-19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[8]
HKAS 23 (revised)	Borrowing Costs[5]

[1] *Effective for annual periods beginning on or after 1 March 2006*
[2] *Effective for annual periods beginning on or after 1 May 2006*
[3] *Effective for annual periods beginning on or after 1 June 2006*
[4] *Effective for annual periods beginning on or after 1 January 2007*
[5] *Effective for annual periods beginning on or after 1 January 2009*
[6] *Effective for annual periods beginning on or after 1 November 2006*
[7] *Effective for annual periods beginning on or after 1 March 2007*
[8] *Effective for annual periods beginning on or after 1 January 2008*
[9] *Effective for annual periods beginning on or after 1 July 2008*

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to the Relevant Periods and are materially consistent with Kiu Hung's accounting policies.

Related parties

A party is considered to be related to Lucky Dragon or Heng Yuan if:

(i) the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, Lucky Dragon or Heng Yuan (as the case to be); (2) has an interest in Lucky Dragon or Heng Yuan (as the case to be) that gives it significant influence over Lucky Dragon or Heng Yuan (as the case to be); or (3) has joint control over Lucky Dragon or Heng Yuan (as the case to be);

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of Lucky Dragon or Heng Yuan (as the case to be) or their parents;

(v) the party is a close member of the family of any individual referred to in (i) or (iv); or

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v).

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement account in the period in which it arises.

Financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Lucky Dragon and Heng Yuan determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet dates.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that Lucky Dragon or Heng Yuan commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Impairment of financial assets

Lucky Dragon and Heng Yuan assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

Lucky Dragon and Heng Yuan first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- Lucky Dragon or Heng Yuan retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- Lucky Dragon or Heng Yuan have transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where Lucky Dragon or Heng Yuan have transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Lucky Dragon or Heng Yuan continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Lucky Dragon or Heng Yuan could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of Lucky Dragon or Heng Yuan's continuing involvement is the amount of the transferred asset that Lucky Dragon or Heng Yuan may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of Lucky Dragon or Heng Yuan's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Lucky Dragon and Heng Yuan's financial liabilities include amount due to a shareholder and accruals, are initially stated at fair value less directly attribution transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities are recognised when Lucky Dragon or Heng Yuan becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expenses in finance cost in the income statement.

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, Lucky Dragon or Heng Yuan measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 Provision, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Mining rights

Mining rights are stated at cost less accumulated amortisation and impairment losses. Mining rights and reserves include the cost of acquiring mining licenses, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights are amortised using the units of production ("UOP") method based on the proven and probable mineral reserves.

Exploration for and Evaluation of Mineral Resources

Exploration rights and assets are stated at cost less impairment losses. Exploration rights and assets include the cost of acquiring exploration rights, topographical and geological surveys, exploratory drilling, sampling and trenching and activities in relation to commercial and technical feasibility studies, and amortisation and depreciation charges in respect of assets consumed during the exploration activities.

Exploration and evaluation costs include expenditure incurred to secure further mineralisation in existing ore bodies as well as in new areas of interest. Expenditure incurred prior to accruing legal rights to explore an area is written off as incurred.

When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to mining infrastructure and amortised on the UOP method based on the proven and probable mineral reserves. Exploration rights and assets are written off to the consolidated income statement if the exploration property is abandoned.

Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Lucky Dragon and Heng Yuan's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except: where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Lucky Dragon and Heng Yuan and when the revenue can be measured reliably, on the following basis:

(a) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Retirement benefits costs

The employees of Heng Yuan in the PRC is a member of a state-sponsored retirement plan operated by the local government in the PRC and it makes mandatory contributions to the state-sponsored retirement plan to fund the employee retirement benefits. The retirement contributions paid by Heng Yuan is based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and is charged to its respective income statements as incurred. Heng Yuan discharges its respective retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC.

Foreign currencies

These financial information are presented in Hong Kong Dollars, which is Lucky Dragon's functional and presentation currency. Heng Yuan has Renminbi as its functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATIONS

Judgements

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of intangible asset

Heng Yuan determines whether intangible asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the intangible asset is allocated. Estimating the value in use requires Heng Yuan to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Heng Yuan had an intangible asset with a carrying value of approximately HK$18,393,000, HK$20,472,000 and HK$24,491,000 as at 31 December 2005 and 2006 and 31 July 2007, respectively. More details of the intangible asset are stated in note 5 to the Financial Information of Heng Yuan.

Estimated fair value of financial assets

The estimation of fair value of financial assets required Lucky Dragon and Heng Yuan to estimate the future market value expected to be received from the disposal of the financial assets and a suitable discount rate in order to calculate the present value.

II. FINANCIAL INFORMATION

A. FINANCIAL INFORMATION OF LUCKY DRAGON

INCOME STATEMENT OF LUCKY DRAGON

	Notes	Period from 30 April 2007 (date of incorporation) to 31 July 2007 *HK$'000* Audited
REVENUE		–
Cost of sales		–
Gross profit		–
General and administrative expenses		(30)
LOSS BEFORE TAX	*2*	(30)
Tax	*4*	–
LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF LUCKY DRAGON		(30)
DIVIDENDS		NIL

BALANCE SHEET OF LUCKY DRAGON

	Notes	**31 July 2007** *HK$'000* Audited
CURRENT ASSETS		
Cash and bank balance		20,730
CURRENT LIABILITIES		
Due to a shareholder	*5*	20,760
NET CURRENT LIABILITIES		(30)
NET LIABILITIES		(30)
DEFICIENCY IN ASSETS		
Issued capital	*6*	–
Accumulated losses		(30)
		(30)

STATEMENT OF CHANGES IN EQUITY OF LUCKY DRAGON

	Issued capital *HK$'000* Audited	**Accumulated losses** *HK$'000* Audited	**Total** *HK$'000* Audited
Issue of share upon incorporation	–	–	–
Loss for the period	–	(30)	(30)
At 31 July 2007	–	(30)	(30)

CASH FLOW STATEMENT OF LUCKY DRAGON

	Period from 30 April 2007 (date of incorporation) to 31 July 2007
	HK$'000
	Audited
CASH FLOWS FROM OPERATING ACTIVITIES	
Loss before tax	(30)
Net cash outflow from operating activities	(30)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from issue of share	–
Advances from a shareholder	20,760
Net cash inflow from financing activities	20,760
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,730
Cash and cash equivalents at beginning of period	–
CASH AND CASH EQUIVALENTS AT END OF PERIOD	20,730
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS	
Cash and bank balances	20,730

NOTES TO FINANCIAL INFORMATION OF LUCKY DRAGON

1. GENERAL

Lucky Dragon is a company incorporated in the British Virgin Islands with limited liability on 30 April 2007 under the name of Lucky Dragon Resources Limited. Pursuant to a resolution in writing of the sole director of Lucky Dragon passed on 25 June 2007, a Chinese name of Luck Dragon known as (運龍資源有限公司) was adopted. Its registered office and principal place of business is located at Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Town, Tortola, the British Virgin Islands.

The Financial Information of Lucky Dragon is presented in Hong Kong Dollars ("HK$") which is the same as the functional currency of Lucky Dragon.

Lucky Dragon has remained dormant since the date of its incorporation until 19 July 2007 when Lucky Dragon of commenced its business investment holding.

2. LOSS BEFORE TAX

Loss before tax is arrived at after charging the following:

	Period from 30 April 2007 (date of incorporation) to 31 July 2007 *HK$'000* Audited
Auditors' remuneration	–

3. DIRECTOR'S AND SENIOR MANAGEMENT'S EMOLUMENTS

No director and senior management of Lucky Dragon received any emoluments in respect of their services to Lucky Dragon during the Relevant Periods.

4. TAX

No provision for Hong Kong profits tax or PRC corporate income tax has been made as Lucky Dragon had no assessable profits arising in Hong Kong or the PRC during the Relevant Periods.

The reconciliation between Lucky Dragon's loss before tax and the amount which is calculated based on the applicable tax rate of 17.5% is as follows:

	Period from 30 April 2007 (date of incorporation) to 31 July 2007	
	HK$'000 Audited	*%*
Loss before tax for the period	(30)	
Tax calculated at the applicable tax rate	(5)	17.5%
Expenses not deductible for tax	5	(17.5%)
Tax charge	–	N/A

There was no material unprovided deferred tax for the Relevant Periods and as at the balance sheet date.

5. DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and has no fixed terms of repayment.

6. SHARE CAPITAL

	31 July 2007
	HK$'000 Audited
Authorised:	
50,000 ordinary shares of US$1.00 each	390
Issued and fully paid:	
1 ordinary share of US$1.00 each	–

On incorporation, Lucky Dragon's authorised share capital was US$50,000, dividing into 50,000 ordinary shares of US$1.00 each, of which 1 share of US$1 each was issued at par for cash as a subscriber share.

7. COMMITMENTS

On 31 July 2007, Pursuant to the Lucky Dragon Agreement, Lucky Dragon has capital commitment in respect of the purchase consideration to Heng Yuan. Lucky Dragon has entered into the Lucky Dragon Agreements on 19 July 2007 to acquire the entire equity interest in Heng Yuan from certain independent third parties. Pursuant to the terms of the Lucky Dragon Agreement, Lucky Dragon shall settle the outstanding considerations to the pre-existing shareholders of Heng Yuan as follow:

a) a fixed consideration of RMB32 million not subject to any adjustment; and

b) an adjustable consideration based on the amount of coal reserves as assessed by an independent PRC exploration company at the general exploration stage on the Xi Meng Coal Mine will be added in the event that:

(i) if the amount of coal reserves of the Xi Meng Coal Mine is less than 200 million tons, Lucky Dragon shall pay RMB0.16 per ton of total coal reserves;

(ii) if the amount of coal reserves of the Xi Meng Coal Mine is more than 200 million tons but less than 300 million tons, Lucky Dragon shall pay RMB0.2 per ton of total coal reserves; and

(iii) the amount of coal reserves of the Xi Meng Coal Mine is more than 300 million tons, Lucky Dragon shall pay RMB60 million (which is equivalent to RMB0.2 per ton of coal for the initial 300 million tons of coal reserves) plus RMB0.1 per ton of additional coal reserves in excess of the initial 300 million tons.

8. SIGNIFICANT POST BALANCE SHEET EVENTS

Subsequent to 31 July 2007, pursuant to the general exploration stage report of the Xi Meng Coal Mine issued by the PRC Exploration Company in October 2007, Xi Meng Coal Mine has a coal reserve of approximately 432.53 million tons and the total purchase consideration payable by Lucky Dragon to the pre-existing shareholders of Heng Yuan amounted to approximately RMB105.3 million. In November 2007, Lucky Dragon had made payment of approximately RMB35.0 million to the pre-existing shareholders of Heng Yuan which is advanced from Gold Dynasty Investment Limited, (the "Vendor"). The amount of Lucky Dragon owed to the Vendor as at the Latest Practicable Date is approximately HK$49.5 million.

Pursuant to an ordinary resolution passed on 18 August 2007 by the shareholders of Heng Yuan, the registered capital of Heng Yuan was increased from RMB500,000 to RMB15,000,000. During the period from November 2007 to January 2008, a total of HK$4,825,000 (equivalent to RMB4,685,000) had been contributed by Lucky Dragon to the capital of Heng Yuan.

Save as disclosed above, Lucky Dragon did not have any significant subsequent events took place subsequent to 31 July 2007.

9. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Lucky Dragon is exposed to various kinds of risks in its operation and financial instruments. Lucky Dragon's risk management objectives and polices mainly focused on investing the potential adverse effects of these risks on Lucky Dragon by closely monitoring the individual investing as follows:

(a) Credit risk

Lucky Dragon's credit risk is primarily attributable to bank balances. All the bank balances were made with financial institutions with high-credit quality.

(b) Liquidity risk

A shareholder and director of the Lucky Dragon has indicated his willingness to continue financing the operations of the Lucky Dragon and has agreed not to demand repayment of the amounts due to him until Lucky Dragon is in a position to do so.

(c) Cash flows and fair value interest rate risk

Lucky Dragon has no significant interest-bearing financial assets and liabilities. Lucky Dragon's results and operating cash flows are substantially independent of changes in market interest rates.

(d) Foreign exchange risk

Lucky Dragon does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Hong Kong Dollar.

10. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Lucky Dragon in respect of any period subsequent to 31 July 2007.

B. FINANCIAL INFORMATION OF HENG YUAN

INCOME STATEMENT OF HENG YUAN

	Notes	Period from 11 January 2005 (date of registration) to 31 December 2005	Year ended 31 December 2006	Seven months ended 31 July 2006	Seven months ended 31 July 2007
		HK$'000	HK$'000	HK$'000	HK$'000
		Audited	Audited	Unaudited	Audited
REVENUE		–	–	–	–
Cost of sales		–	–	–	–
Gross profit		–	–	–	–
Waiver of the amount due to an equity holder	6	–	–	–	22,243
General and administrative expenses		(740)	(361)	(197)	(162)
PROFIT/(LOSS) BEFORE TAX	2	(740)	(361)	(197)	22,081
Tax	4	–	–	–	–
PROFIT/(LOSS) FOR THE PERIOD/YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF HENG YUAN		(740)	(361)	(197)	22,081
DIVIDENDS		NIL	NIL	NIL	NIL

BALANCE SHEET OF HENG YUAN

		As at 31 December		31 July
		2005	2006	2007
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		Audited	Audited	Audited
NON-CURRENT ASSETS				
Intangible assets	*5*	18,393	20,472	24,491
CURRENT ASSETS				
Prepayments, deposits and other receivable		64	97	93
Cash and bank balances		4	1	1
		68	98	94
CURRENT LIABILITIES				
Due to a shareholder	*6*	18,686	21,156	–
Loan from a third party	*7*	–	–	3,090
		18,686	21,156	3,090
NET CURRENT LIABILITIES		(18,618)	(21,058)	(2,996)
NET ASSETS/(LIABILITIES)		(225)	(586)	21,495
EQUITY/(DEFICIENCY IN ASSETS)				
Paid-up capital	*8*	515	515	515
Retained profits/(accumulated losses)		(740)	(1,101)	20,980
		(225)	(586)	21,495

STATEMENTS OF CHANGES IN EQUITY OF HENG YUAN

	Paid-up capital	**Retained profits/ (accumulated losses)**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Paid-up capital upon establishment	515	–	515
Loss for the period	–	(740)	(740)
At 31 December 2005 and 1 January 2006	515	(740)	(225)
Loss for the year	–	(361)	(361)
At 31 December 2006 and 1 January 2007	515	(1,101)	(586)
Profit for the period	–	22,081	22,081
At 31 July 2007	515	20,980	21,495

CASH FLOW STATEMENT OF HENG YUAN

	Period from 11 January 2005 (date of registration) to 31 December 2005	Year ended 31 December 2006	Seven months ended 31 July 2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Unaudited	Audited
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit/(loss) before taxation	(740)	(361)	(197)	22,081
Adjustment for:				
Wavier of the amount due to an equity holder *(note 6)*	–	–	–	(22,243)
Operating profit before working capital changes	(740)	(361)	(197)	(162)
Decrease/(increase) in prepayments, deposits and other receivables	(64)	(33)	–	4
Net cash outflow from operating activities	(804)	(394)	(197)	(158)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of mining rights	(18,393)	(2,079)	–	(929)
Acquisition of exploration rights and assets	–	–	–	(3,090)
Net cash used in investing activities	(18,393)	(2,079)	–	(4,019)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceed from paid-up capital	515	–	–	–
Advances from a shareholder	18,686	2,470	194	1,087
Loan from a third party	–	–	–	3,090
Net cash inflow from financing activities	19,201	2,470	194	4,177
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	4	(3)	(3)	–
Cash and cash equivalents at beginning of year/period	–	4	4	1
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	4	1	1	1
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	4	1	1	1

NOTES TO FINANCIAL INFORMATION OF HENG YUAN

1. GENERAL

Heng Yuan is a company established and registered in the PRC with limited liability on 11 January 2005.

The Financial Information of Heng Yuan is presented in Hong Kong Dollar ("HK$") and its functional currency is Renminbi ("RMB").

Heng Yuan was principally engaged in the mining and the sale of mine products other than noble metal and iron ore.

2. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after charging the following:

	Period from 11 January 2005 (date of registration) to 31 December 2005	Year ended 31 December 2006	Seven months ended 31 July 2007	
	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Unaudited	Audited
Auditors' remuneration	–	–	–	–
Staff cost (excluding directors' remuneration *(note 3)*)				
Salaries and wages	269	55	48	22

3. DIRECTOR'S AND SENIOR MANAGEMENT'S EMOLUMENTS

No director and senior management of Heng Yuan received any emoluments in respect of their services to Heng Yuan during the Relevant Periods.

(ii) Details of the emoluments paid to the five highest paid individuals (including 5 other employees) are as follows:

	Period from 11 January 2005 (date of registration) to 31 December 2005	Year ended 31 December 2006	Seven months ended 31 July 2007	
	2005	2006	2006	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Unaudited	Audited
Salaries and allowances	27	40	38	21
Contributions to retirement scheme	–	–	–	–
	27	40	38	21

During the Relevant Periods, no emolument was paid to the five highest paid individuals (including director and other employees) as inducement to join or upon joining Heng Yuan or as compensation of loss of office.

The emoluments of all the five highest paid individuals (including 5 other employees) for the Relevant Periods are below HK$1,000,000.

4. TAX

No provision for Hong Kong profits tax and PRC corporate income tax has been made as Heng Yuan had no assessable profits arising in Hong Kong and the PRC during the Relevant Periods.

The reconciliation between Heng Yuan's profit/(loss) before tax and the amount which is calculated based on the applicable tax rate of 33% is as follows:

	Period from 11 January 2005 (date of registration) to 31 December 2005		Year ended 31 December 2006		Seven months ended 31 July 2006		2007	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000*	*%*
	Audited		Audited		Unaudited		Audited	
Profit/(loss) before tax	(740)		(361)		(197)		22,081	
Tax calculated at the applicable tax rate of 33%	(244)	33	(119)	33	(65)	33	3,864	33
Expenses not deductible for tax/(profits exempted from tax)	244	(33)	119	(33)	65	(33)	(3,864)	(33)
Tax charge	–	–	–	–	–	–	–	–

There was no material unprovided deferred tax for the Relevant Periods and as at the balance sheet date.

5. INTANGIBLE ASSETS

Intangible assets represented cost incurred in relation to: (i) the mining right and the mining work of the Coal Mine in the Huanghuashan Coal Mine (黃花山煤礦), which is located in Tongliao City of Inner Mongolia (內蒙古通遼市), the mining rights are amortised using the UOP method based on the proven and probable mineral reserves. (ii) the exploration rights and the exploration work of the Coal Mine in the Xi Meng Coal Mine (錫盟煤礦), which is located in Xilinguolemeng of Inner Mongolia (內蒙古錫林郭勒盟), the exploration rights are stated at cost less impairment losses. When it can be reasonably ascertained that an exploration property is capable of commercial production, exploration and evaluation costs capitalised are transferred to mining infrastructure and amortised on the UOP method based on the proven and probable mineral reserves. During the Relevant Periods, no amortisation of the mining rights provided in the financial information as Heng Yuan has not commenced its business. Details of the movement in intangible assets during the Relevant Periods are as follows:

	Exploration rights and assets	**Mining rights**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
31 December 2005			
Additions during the period	–	18,393	18,393
Less : Impairment loss	–	–	–
At 31 December 2005, net of impairment loss	–	18,393	18,393
31 December 2006			
At 1 January 2006, net of impairment loss	–	18,393	18,393
Additions during the year	–	2,079	2,079
Less : Impairment loss	–	–	–
At 31 December 2006, net of impairment loss	–	20,472	20,472
31 July 2007			
At 1 January 2007, net of impairment loss	–	20,472	20,472
Additions during the period	3,090	929	4,019
Less : Impairment loss	–	–	–
At 31 July 2007, net of impairment loss	3,090	21,401	24,491

At each balance sheet date, Heng Yuan had pledged fixed assets included in intangible assets of approximately HK$1,597,000 in order to provide a guarantee in respect of a loan borrowed by a related party in the amount of approximately HK$824,000 (Note 10).

6. DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and has no fixed terms of repayment. Pursuant to a resolution passed on 19 July 2007, an equity holder has waived the outstanding amount due to him.

7. LOAN FROM A THIRD PARTY

The loan from a third party is unsecured, interest-free and has no fixed terms of repayment.

8. REGISTERED AND PAID-UP CAPITAL

	As at 31 December		31 July
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Registered and fully paid-up	515	515	515

The registered capital of Heng Yuan was RMB500,000 (approximately HK$515,000) upon registration, which was fully paid up in cash on registration.

9. COMMITMENTS

At each balance sheet date, Heng Yuan had the following capital commitments:

	As at 31 December		31 July
	2005	**2006**	**2007**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Contracted, but not provided for:			
Prepaid cost incurred in respect of exploration rights and assets	–	–	5,485
Authorised, but not contracted for:			
Prepaid cost incurred in respect of exploration rights and assets	–	–	5,536
	–	–	11,021

10. CONTINGENT LIABILITIES

At each balance sheet date, Heng Yuan provided a joint guarantee to the related party in respect of the loan of approximately amounting of HK$824,000 (Note 5). Subsequent 31 July 2007, the outstanding loan amounts had fully settled and the joint guarantee had released.

Save as disclosed above, Heng Yuan did not have significant contingent liabilities as at each balance sheet.

11. SIGNIFICANT POST BALANCE SHEET EVENTS

On 14 August 2007, Heng Yuan entered into a loan agreement with a third party. Pursuant to the loan agreement. The third party will provide a loan of RMB4,000,000 (approximately HK$4,120,000) to Heng Yuan to settle capital commitments in respect to prepaid cost incurred in respect of the exploration rights and assets, and which is interest-free, unsecured and has no fixed terms of repayment.

Pursuant to an ordinary resolution passed on 18 August 2007 by the shareholders of Heng Yuan, the registered capital of Heng Yuan was increased from RMB500,000 to RMB15,000,000. During the period from November 2007 to January 2008, a total of HK$4,825,000 (equivalent to RMB4,685,000) had been contributed by Lucky Dragon to the capital of Heng Yuan.

Save as disclosed above, Heng Yuan did not have other significant subsequent events took place subsequent to 31 July 2007.

12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Heng Yuan is exposed to various kinds of risks in its operation and financial instruments. Heng Yuan's risk management objectives and polices mainly focused on investing the potential adverse effects of these risks on Heng Yuan by closely monitoring the individual investing as follows:

(a) Credit risk

Heng Yuan's credit risk is primarily attributable to prepayments, deposits and other receivable and bank balances. All the bank balances were made with financial institutions with high-credit quality.

(b) Liquidity risk

Lucky Dragon, a holding company of Heng Yuan upon the completion of Lucky Dragon Agreement has indicated his willingness to continue financing the operations of the Heng Yuan and has agreed not to demand repayment of the amounts due to him until the Heng Yuan is in a position to do so.

(c) Cash flows and fair value interest rate risk

Heng Yuan has no significant interest-bearing financial assets and liabilities. Heng Yuan's results and operating cash flows are substantially independent of changes in market interest rates.

(d) Foreign exchange risk

Heng Yuan does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Hong Kong Dollars.

13. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for Heng Yuan in respect of any period subsequent to 31 July 2007.

Yours faithfully,
Cachet Certified Public Accountants Limited
Certified Public Accountants
Hong Kong, 31 January 2008
Chan Chi Yuen
Practising Certificate Number P02671

III. RECONCILIATION STATEMENT

Included in the intangible assets of Heng Yuan are properties which are stated at carrying value of approximately HK$200,000 as at 31 July 2007. A reconciliation of the net book value of the relevant properties as of 31 July 2007 to their unaudited net book values of property interests, as stated in Appendix VI to this circular, is as follows:

	HK$
Net book value as of 31 July 2007 and 30 November 2007	200,000
Valuation depreciation	(200,000)
Valuation as of 30 November 2007 as per Appendix VI of this circular	–

Pursuant to paragraph 31(3) of Appendix 1B of the Listing Rules, set out below is the accountants report on Jumplex, First Choice, Wise House and Mingrunfeng, as extracted from Appendix II of the Company's circular dated 30 March 2007 in relation to the acquisition of Mingrunfeng which is not related to the Acquisition and is for information purpose only.

CACHET

Cachet Certified Public Accountants Limited

德揚會計師事務所有限公司

30 March 2007

The Directors
Kiu Hung International Holdings Limited

Dear Sirs,

We set out below our report on the financial information relating to Jumplex Investment Limited ("Jumplex"), First Choice Resources Limited ("First Choice"), Wise House Limited ("Wise House") and Beijing Mingrunfeng Trading Co., Limited (北京銘潤峰商貿有限公司) ("Mingrunfeng"), including the income statements, statements of changes in equity and cash flow statements of Jumplex, First Choice, Wise House and Mingrunfeng for each of the three years ended 31 December 2004, 2005 and 2006 or since their respective dates of incorporation to 31 December 2006 whichever is shorter (the "Relevant Periods") and of the balance sheets of Jumplex as at 31 December 2006; and of First Choice, Wise House and Mingrunfeng as at 31 December 2004, 2005 and 2006 and notes thereto (the "Financial Information") for inclusion in the circular of Kiu Hung International Holdings Limited (the "Company") dated 30 March 2007 (the "Circular") in connection with:

(a) the proposed contribution of RMB20 million to the capital of Mingrunfeng in return for an enlarged 51% equity interest in Mingrunfeng pursuant to a capital contribution agreement (the "Capital Contribution Agreement") dated 2 September 2006 entered into between Bright Asset Investment Limited ("Bright Asset"), a wholly owned subsidiary of the Company, and Jumplex, First Choice, Wise House and Mr. Yang Runzhi ("Mr. Yang"), the original shareholders of Mingrunfeng; and

(b) (i) the proposed acquisition of the entire issued share capital of Jumplex and the outstanding shareholder's loan at the date of completion of the Jumplex Acquisition Agreement at a consideration of approximately HK$14.6 million, to be satisfied by the allotment and issue of 44,350,175 ordinary shares of HK$0.02 each of the Company (the "Consideration Shares") at an issue price of HK$0.33 per Consideration Share pursuant to a sales and purchase agreement dated 16 January 2007 (the "Jumplex Acquisition Agreement") entered into between Bright Asset and Mr. Choi Pui Sze ("Mr. Choi"), the sole shareholder of Jumplex;

(ii) the proposed acquisition of the entire issued share capital of First Choice and the outstanding shareholder's loan at the date of completion of the First Choice Acquisition Agreement at a consideration of approximately HK$19.5 million, to be satisfied by the allotment and issue of 59,103,859 Consideration Shares at an issue price of HK$0.33 per Consideration Share pursuant to a sales and purchase agreement dated 16 January 2007 (the "First Choice Acquisition Agreement") entered into between Bright Asset and Ms. Lee Sai Yin ("Ms. Lee"), the sole shareholder of First Choice; and

(iii) the proposed acquisition of the entire issued share capital of Wise House, at a consideration of approximately HK$46.3 million, to be satisfied by the allotment and issue of 140,338,246 Consideration Shares at an issue price of HK$0.33 per Consideration Share pursuant to a sales and purchase agreement dated 16 January 2007 (the "Wise House Acquisition Agreement") entered into between Bright Asset and Mr. Chan Sik Huat Simon ("Mr. Chan") and Mr. Chung Cheuk Wah Sammy ("Mr. Chung"), the shareholders of Wise House.

Pursuant to an acquisition agreement also dated 16 January 2007 (the "2nd Acquisition Agreement"), Bright Asset will conditionally acquire an additional 16% equity interest in the enlarged paid up capital of Mingrunfeng from Mr. Yang at a consideration of approximately HK$39.0 million, to be satisfied by the allotment and issue of 118,207,720 Consideration Shares at an issue price of HK$0.33 per Consideration Share. The 2nd Acquisition Agreement will take place within 30 days after (a) Mingrunfeng has obtained the exploration license, being the legal certificate for the entire exploration rights of the Guerbanhada Coal Mine (古爾班哈達煤礦點) in Xilinguolemeng (錫林郭勒盟) of the Inner Mongolia Autonomous Region of the People's Republic of China (the "PRC") (the "Coal Mine"); and (b) the Capital Contribution Agreement has been approved by the relevant government authorities.

Jumplex is a company incorporated in the British Virgin Islands with limited liability on 20 April 2006 and is principally engaged in investment holding. Jumplex holds a 12.24% equity interest in Mingrunfeng as at the date of this report, which will be diluted to 6% upon completion of the Capital Contribution Agreement.

First Choice is a company incorporated in the British Virgin Islands with limited liability on 28 March 2002 and is principally engaged in investment holding. First Choice holds a 16.33% equity interest in Mingrunfeng as at the date of this report, which will be diluted to 8% upon completion of the Capital Contribution Agreement.

Wise House is a company incorporated in the British Virgin Islands with limited liability on 7 July 2004 and is principally engaged in investment holding. Wise House holds a 38.78% equity interest in Mingrunfeng as at the date of this report, which will be diluted to 19% upon completion of the Capital Contribution Agreement.

Mingrunfeng is a company established as a limited liability company in the PRC on 24 September 2003 and had been principally engaged in the trading of construction materials and electrical appliance and the provision of related consultancy services until June 2004. Mingrunfeng commenced its coal exploration and mining business in June 2006 after having entered into a co-operation agreement (the "Co-Operation Agreement") with Xilinguole Guoxin Mines Co., Limited (錫林郭勒國鑫礦業有限公司) ("Guoxin"), the legal owner of an exploration license for the exploration of the Coal Mine.

Upon completion of the Capital Contribution Agreement, the Jumplex Acquisition Agreement, the First Choice Acquisition Agreement, the Wise House Acquisition Agreement and the 2nd Acquisition Agreement, Mingrunfeng will become an indirect wholly owned subsidiary of the Company.

As at the date of this report, no audited financial statements have been prepared for Jumplex since its date of incorporation. We have, however, reviewed all relevant transactions of Jumplex since its date of incorporation to 31 December 2006, and carried out such procedures as we considered necessary. For the purpose of this report, the sole director of Jumplex has prepared the financial statements of Jumplex for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). We have performed an independent audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA of the Underlying Financial Statements of Jumplex for the Relevant Periods.

First Choice has its financial statements prepared in accordance HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements were audited by Messrs. Tsui Pui Ling, Certified Public Accountant in Hong Kong, for the period from 28 March 2002 (date of incorporation) to 31 December 2005. For the purpose of this report, the sole director of First Choice has prepared the financial statements of First Choice for the Relevant Periods in accordance with HKFRSs (the "Underlying Financial Statements"). We have performed an independent audit in accordance with HKSA of the Underlying Financial Statements of First Choice for the Relevant Periods.

Wise House has its financial statements prepared in accordance HKFRSs, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements were audited by Messrs. Wong Yun Tung & Co., Certified Public Accountants in Hong Kong, for the period from 7 July 2004 (date of incorporation) to 31 March 2006. For the purpose of this report, the directors of Wise House have prepared the financial statements of Wise House for the Relevant Periods in accordance with HKFRSs (the "Underlying Financial Statements"). We have performed an independent audit in accordance with HKSA of the Underlying Financial Statements of Wise House for the Relevant Periods.

Mingrunfeng has its statutory financial statements prepared in accordance with the accounting principles and regulations applicable to enterprises established in the PRC. These statutory financial statements were audited by Beijing Chong Yue Zhou CPA Inc (北京中岳洲會計師事務所有限公司) in the PRC for the years ended 31 December 2004, 2005 and 2006. For the purpose of this report, the directors of Mingrunfeng have prepared the financial statements of Mingrunfeng for the Relevant Periods in accordance with HKFRSs (the "Underlying Financial Statements"). We have performed an independent audit in accordance with HKSA of the Underlying Financial Statements of Mingrunfeng for the Relevant Periods.

We have examined the audited financial statements or, where appropriate, management accounts of Jumplex, First Choice, Wise House and Mingrunfeng for the Relevant Periods. Our examination was made in accordance with the Auditing Guideline 3.304 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The Financial Information as set out in this report has been prepared from the audited Underlying Financial Statements, or where appropriate, management accounts of Jumplex, First Choice, Wise House and Mingrunfeng, after making such adjustments where appropriate.

The directors of Jumplex, First Choice, Wise House and Mingrunfeng are responsible for the preparation of the Financial Information of Jumplex, First Choice, Wise House and Mingrunfeng, respectively, which gives a true and fair view. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the contents of the Circular in which this report is included.

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereto give, for the purpose of this report, a true and fair view of the state of affairs of Jumplex as at 31 December 2006; and of First Choice, Wise House and Mingrunfeng as at 31 December 2004, 2005 and 2006; and of the results and cash flows of Jumplex, First Choice, Wise House and Mingrunfeng for the Relevant Periods.

I. SIGNIFICANT ACCOUNTING POLICIES

1 EARLY ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting periods beginning on after 1 January 2005. First Choice, Wise House and Mingrunfeng have early adopted these new and revised HKFRSs in preparing the Financial Information for the period/year ended 31 December 2004. The adoption of these new and revised HKFRSs did not have any significant impact on its results of operations and financial position.

The HKICPA has also issued the following standards and interpretations that are not yet effective. Jumplex, First Choice, Wise House and Mingrunfeng have considered the following standards and interpretations but do not expect they will have a material effect on how the results of operations and financial position of Mingrunfeng are prepared and presented.

HKAS 1 Amendment	Capital disclosures[4]
HKAS 19 Amendment	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures[5]
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation[5]
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transaction[5]
HKAS 39 Amendment	The Fair Value Option[5]
HKAS 39 & HKFRS4 Amendment	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[5]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[5]
HKFRS 7	Financial Instruments: Disclosures[4]
HK(IFRIC) – INT 4	Determining whether an Arrangement contains a Lease[5]
HK(IFRIC) – INT 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[5]
HK(IFRIC) – INT 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[6]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[1]
HK(IFRIC) – INT 8	Scope of HKFRS 2[2]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[3]

1 *Effective for annual periods beginning on or after 1 March 2006*
2 *Effective for annual periods beginning on or after 1 May 2006*
3 *Effective for annual periods beginning on or after 1 June 2006*
4 *Effective for annual periods beginning on or after 1 January 2007*
5 *Effective for annual periods beginning on or after 1 January 2006*
6 *Effective for annual periods beginning on or after 1 December 2005*

2 BASIS OF PRESENTATION AND GOING CONCERN

The Financial Information has been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

As at 31 December 2006, Jumplex had net current liabilities and deficiency in assets of HK$81,000 and HK$20,000, respectively. In preparing the Financial Information, the sole director of Jumplex has given careful consideration to the current and anticipated future liquidity of Jumplex, particularly the proposed acquisition of the entire issued share capital of Jumplex and the shareholder's loan by Bright Asset pursuant to the Jumplex Acquisition Agreement. Accordingly, the Financial Information has been prepared on a going concern basis and does not include any adjustments that would be necessary should financial support from Bright Asset is not obtained.

As at 31 December 2006, First Choice had net current liabilities and deficiency in assets of HK$137,000 and HK$55,000, respectively. In preparing the Financial Information, the sole director of First Choice has given careful consideration to the current and anticipated future liquidity of First Choice, particularly the proposed acquisition of the entire issued share capital of First Choice and the shareholder's loan by Bright Asset pursuant to the First Choice Acquisition Agreement. Accordingly, the Financial Information has been prepared on a going concern basis and does not include any adjustments that would be necessary should financial support from Bright Asset is not obtained.

As at 31 December 2006, Mingrunfeng had net current liabilities and deficiency in assets of HK$25,954,000 and HK$2,040,000, respectively. In preparing the Financial Information, the directors of Mingrunfeng have given careful consideration to the current and anticipated future liquidity of Mingrunfeng, particularly the contribution of RMB20 million to the capital of Mingrunfeng in return for its enlarged 51% equity interest pursuant to the Capital Contribution Agreement and the provision of a revolving loan facility of up to RMB40 million by Bright Asset pursuant to a loan facility agreement dated 22 September 2006. Accordingly, the Financial Information has been prepared on a going concern basis and does not include any adjustments that would be necessary should financial support from Bright Asset is not obtained.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Related parties

A party is considered to be related to Jumplex, First Choice, Wise House and Mingrunfeng if:

(i) the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, Jumplex, First Choice, Wise House and Mingrunfeng; (2) has an interest in Jumplex, First Choice, Wise House and Mingrunfeng that gives it significant influence over Jumplex, First Choice, Wise House and Mingrunfeng; or (3) has joint control over Jumplex, First Choice, Wise House and Mingrunfeng;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of Jumplex, First Choice, Wise House and Mingrunfeng or their parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv); or

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v).

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rate used for this purpose is 20% for furniture and equipment.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the period the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement account in the period in which it arises.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Jumplex, First Choice, Wise House and Mingrunfeng is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs. Jumplex, First Choice, Wise House and Mingrunfeng determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that Jumplex, First Choice, Wise House and Mingrunfeng commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

Jumplex, First Choice, Wise House and Mingrunfeng assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

Jumplex, First Choice, Wise House and Mingrunfeng first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Financial liabilities

The financial liabilities of Jumplex, First Choice, Wise House and Mingrunfeng include borrowings, trade payable, accruals and other payables, deposit received and amount due to a director.

Financial liabilities are recognised when Jumplex, First Choice, Wise House and Mingrunfeng becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expenses in finance cost in the income statement.

Trade payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of Jumplex, First Choice, Wise House and Mingrunfeng's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except: where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to Jumplex, First Choice, Wise House and Mingrunfeng and when the revenue can be measured reliably, on the following basis:

(a) from the rendering of consultancy services, when the service is rendered and completed;

(b) from the sales of goods, when the significant risks and rewards of ownership have been transferred to the customers, provided that Jumplex, First Choice, Wise House and Mingrunfeng maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Retirement benefits costs

The employees of Jumplex, First Choice, Wise House and Mingrunfeng in the PRC is a member of a state-sponsored retirement plan operated by the local government in the PRC and it makes mandatory contributions to the state-sponsored retirement plan to fund the employee retirement benefits. The retirement contributions paid by Jumplex, First Choice, Wise House and Mingrunfeng is based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and is charged to its respective income statements as incurred. Jumplex, First Choice, Wise House and Mingrunfeng discharges its respective retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC.

Foreign currencies

These financial information are presented in Hong Kong Dollar, which is Jumplex, First Choice and Wise House's functional and presentation currency. Mingrunfeng has Renminbi as its functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATIONS

Judgements

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives of property, plant & equipment and intangible assets

The management of Jumplex, First Choice, Wise House and Mingrunfeng determines the estimated useful lives and related depreciation/amortization charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation/amortization charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of intangible asset

Jumplex, First Choice, Wise House and Mingrunfeng determines whether intangible asset is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the intangible asset is allocated. Estimating the value in use requires Jumplex, First Choice, Wise House and Mingrunfeng to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Mingrunfeng had an intangible asset with a carrying value of HK$23,885,000 as at 31 December 2006. More details of the intangible asset are stated in note 10 to the financial information of Mingrunfeng.

Estimated fair value of financial assets

The estimation of fair value of financial assets required Jumplex, First Choice, Wise House and Mingrunfeng to estimate the future market value expected to be received from the disposal of the financial assets and a suitable discount rate in order to calculate the present value.

II. FINANCIAL INFORMATION

A. FINANCIAL INFORMATION OF JUMPLEX

INCOME STATEMENT

	Notes	Period from 20 April 2006 (date of incorporation) to 31 December 2006 *HK$'000* Audited
REVENUE		–
Cost of sales		–
Gross profit		–
General and administrative expenses		(20)
LOSS BEFORE TAXATION	*2*	(20)
Taxation	*4*	–
LOSS FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS OF JUMPLEX		(20)
DIVIDENDS		NIL

BALANCE SHEET

	Notes	31 December 2006 HK$'000 Audited
NON-CURRENT ASSET		
Available for sale investment	*5*	61
CURRENT LIABILITIES		
Other payables and accruals		62
Due to a shareholder	*6*	19
NET CURRENT LIABILITIES		(81)
NET LIABILITIES		(20)
DEFICIENCY IN ASSETS		
Share capital	*7*	–
Reserves		(20)
		(20)

STATEMENT OF CHANGES IN EQUITY

	Issued capital HK$'000 Audited	Accumulated losses HK$'000 Audited	Total HK$'000 Audited
Issue of share upon incorporation	–	–	–
Loss for the period	–	(20)	(20)
At 31 December 2006	–	(20)	(20)

CASH FLOW STATEMENT

	Period from 20 April 2006 (date of incorporation) to 31 December 2006
	HK$'000
	Audited
Cash flows from operating activities	
Loss before taxation	(20)
Increase in other payables and accruals	1
Net cash used in operating activities	(19)
Cash flows from financing activities	
Proceed from issue of share	–
Increase in amount due to a shareholder	19
Net cash generated from financing activities	19
Net increase in cash and cash equivalents	–
Cash and cash equivalents at beginning of period	–
Cash and cash equivalents at end of period	–
Analysis of balances of cash and cash equivalents	
Cash and bank balances	–

NOTES TO FINANCIAL INFORMATION OF JUMPLEX

1. GENERAL

Jumplex is incorporated in British Virgin Islands with limited liability on 20 April 2006 under the name of Jumplex Investments Limited. Pursuant to a resolution in writing of the director of Jumplex passed on 15 September 2006, the name of Jumplex was changed to Jumplex Investments Limited (俊邦投資有限公司). Its registered office and principal place of business is located at Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Town, Tortola, British Virgin Islands.

The Financial Information is presented in Hong Kong Dollar ("HK$") which is the same as the functional currency of Jumplex.

Jumplex was principally engaged in investment holding.

2. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	Period from 20 April 2006 (date of incorporation) to 31 December 2006 *HK$'000* Audited
Auditors' remuneration	–

3. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

No directors and senior management of Jumplex received any emoluments in respect of their services to the Company during the Relevant Periods.

4. TAXATION

No provision for Hong Kong profits tax and PRC corporate income tax has been made as Jumplex had no assessable profits arising from Hong Kong and the PRC during the Relevant Periods.

The reconciliation between Jumplex's loss before taxation and the amount which is calculated based on the applicable tax rate of 33% is as follows:

	Period from 20 April 2006 (date of incorporation) to 31 December 2006	
	HK$'000	*%*
Loss before tax for the period	(20)	
Tax calculated at the applicable tax rate of 33%	(7)	33%
Expenses not deductible for tax	7	(33%)
Tax charge	–	N/A

There was no material unprovided deferred tax for the Relevant Periods and as at the balance sheet date.

5. AVAILABLE FOR SALE INVESTMENT

	31 December 2006
	HK$'000
	Audited
Unlisted shares, at cost	61
Less: Impairment loss	–
At balance sheet date, net of impairment loss	61

Particulars of available for sale investment are as follows:

Name	**Particulars of interest in paid up capital**	**Place of registration**	**Percentage of equity interest attributable to Jumplex**	**Principal activities**
Mingrunfeng	RMB61,200	PRC	12.24%*	Coal exploration and mining business

* *Pursuant to the Capital Contribution Agreement entered into between Jumplex, First Choice, Wise House, Mr. Yang and Bright Asset dated 2 September 2006, Bright Asset will contribute RMB20 million to the capital of Mingrunfeng in return for an enlarged 51% equity interest of Mingrunfeng. Upon completion of the Capital Contribution Agreement, Jumplex's interest in Mingrunfeng will be diluted to 6%.*

6. DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and has no fixed terms of repayment.

7. SHARE CAPITAL

	31 December 2006
	HK$'000
	Audited
Authorised:	
50,000 ordinary shares of US$1.00 each	390
Issued and fully paid:	
1 ordinary share of US$1.00 each	–

On incorporation, Jumplex's authorised capital was US$50,000, divided into 50,000 ordinary shares of US$1.00 each, of which 1 share of US$1 each was issued at par for cash as a subscriber share.

8. CONTINGENT LIABILITIES

(a) On 10 November 2006, Jumplex entered into a loan agreement with Mingrunfeng, Mr. Yang, First Choice and Wise House. Pursuant to the loan agreement, Mr. Yang had provided a loan of RMB1,000,000 to Mingrunfeng which bears interest at a monthly rate of 1.5%, is unsecured and is jointly guaranteed by Jumplex, First Choice and Wise House. The loan is original repayable on or before 8 February 2007. Pursuant to a supplemental agreement dated 20 January 2007, the repayment date of the loan is extended for three months to 8 May 2007.

(b) On 16 November 2006, Jumplex further entered into three loan facility agreements with Lender B, an independent third party, Mingrunfeng, First Choice, Wise House and Mr. Yang. Pursuant to these loan agreements, Lender B agreed to provide loans of RMB1,000,000, RMB1,000,000 and RMB2,000,000 to Mingrunfeng which bear interest at a monthly rate of 1.6%, 1.5% and 1.5%, respectively and are repayable within three months from the drawn down date. The loans are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang. As at the balance sheet date, an aggregate loan amount of RMB2,500,000 had been drawn down by Mingrufeng of which RMB1,000,000, RMB1,000,000, and RMB500,000 are original due for repayment on or before 17 February 2007, 2 March 2007 and 22 March 2007, respectively. Subsequent to the balance sheet date, further amounts of RMB500,000 and RMB1,000,000 were drawn by Mingrunfeng which are due for repayment on or before 8 April 2007 and 27 June 2007, respectively. Pursuant to a supplemental agreement dated 20 January 2007, the repayment dates of the loans are extended for three months to 17 May 2007, 2 June 2007, 22 June 2007, 8 July 2007 and 27 September 2007, respectively.

Save as disclosed above, Jumplex did not have other significant contingent liabilities as at the balance sheet date.

9. SIGNIFICANT POST BALANCE SHEET EVENTS

(a) On 16 January 2007, Mr. Choi, the sole shareholder of Jumplex, entered into the Jumplex Acquisition Agreement with Bright Asset for disposal of the entire issued share capital in Jumplex and the outstanding shareholder's loan at the date of completion of the Jumplex Acquisition Agreement to Bright Asset at a consideration of HK$14.6 million. Upon completion of the Jumplex Acquisition Agreement, Jumplex will become a wholly owned subsidiary of Bright Asset.

(b) On 20 January 2007, Jumplex entered into a loan facility agreement with Lender A, an independent third party, with Mingrunfeng, First Choice, Wise House and Mr. Yang. Pursuant to the agreement, Lender A has provided a loan in the amount of RMB1,500,000 to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable on or before 18 July 2007. The loan is unsecured and is jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang.

(c) On 19 March 2007, Jumplex further entered into two loan facility agreements with Lender A and Lender C, an independent third party with Mingrunfeng, First Choice, Wise House and Mr. Yang. Pursuant to the agreements, Lender A and Lender C will provide loans in the amount of RMB3,000,000 and RMB3,000,000, respectively to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The loans are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang. As at the date of this report, the full loan amount of RMB6,000,000 had been drawn down by Mingrunfeng of which RMB3,000,000 is due for repayment on or before 21 September 2007 and RMB3,000,000 is due for repayment on or before 22 September 2007.

Save as disclosed above, Jumplex did not have other significant subsequent events took place subsequent to 31 December 2006.

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Jumplex is exposed to various kinds of risks in its operation and financial instruments. Jumplex's risk management objectives and polices mainly focused on investing the potential adverse effects of these risks on Jumplex by closely monitoring the individual investing as follows:

(a) Liquidity risk

The shareholder and director of Jumplex has indicated his willingness to continue financing the operations of Jumplex in order to fund any emergency liquidity requirement.

(b) Cash flows and fair value interest rate risk

Jumplex has no significant interest-bearing financial assets and liabilities. Jumplex's results and operating cash flows are substantially independent of changes in market interest rates.

(c) Foreign exchange risk

Jumplex does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Hong Kong Dollar.

11. SUBSEQUENT FINANCIAL STATEMENT

No audited financial statements have been prepared for Jumplex in respect of any period subsequent to 31 December 2006.

B. FINANCIAL INFORMATION OF FIRST CHOICE

INCOME STATEMENT

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		Audited	Audited	Audited
REVENUE		–	–	–
Cost of sales		–	–	–
Gross profit		–	–	–
General and administrative expenses		(5)	(15)	(22)
LOSS BEFORE TAXATION	*2*	(5)	(15)	(22)
Taxation	*4*	–	–	–
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF FIRST CHOICE		(5)	(15)	(22)
DIVIDENDS		NIL	NIL	NIL

BALANCE SHEET

		31 December		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		Audited	Audited	Audited
NON-CURRENT ASSET				
Available for sale investment	*5*	–	–	82
CURRENT ASSETS				
Loan to a third party	*6*	619	619	619
Cash and bank balances		–	–	83
		619	619	702
CURRENT LIABILITIES				
Other payables and accruals		–	–	86
Due to a shareholder	*7*	637	652	753
		637	652	839
NET CURRENT LIABILITIES		(18)	(33)	(137)
NET LIABILITIES		(18)	(33)	(55)
DEFICIENCY IN ASSETS				
Share capital	*8*	–	–	–
Reserves		(18)	(33)	(55)
		(18)	(33)	(55)

STATEMENT OF CHANGES IN EQUITY

	Issued capital	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
At 31 December 2003 and 1 January 2004	–	(13)	(13)
Loss for the year	–	(5)	(5)
At 31 December 2004 and 1 January 2005	–	(18)	(18)
Loss for the year	–	(15)	(15)
At 31 December 2005 and 1 January 2006	–	(33)	(33)
Loss for the year	–	(22)	(22)
At 31 December 2006	–	(55)	(55)

CASH FLOW STATEMENT

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Cash flows from operating activities			
Loss before taxation	(5)	(15)	(22)
Increase in other payables and accrual	–	–	4
Net cash used in operating activities	(5)	(15)	(18)
Cash flows from financing activities			
Increase in amount due to a shareholder	5	15	101
Net cash generated from financing activities	5	15	101
Net increase in cash and cash equivalents	–	–	83
Cash and cash equivalents at beginning of year	–	–	–
Cash and cash equivalents at end of year	–	–	83
Analysis of balances of cash and cash equivalents			
Cash and bank balances	–	–	83

NOTES TO FINANCIAL INFORMATION OF FIRST CHOICE

1. GENERAL

First Choice is incorporated in British Virgin Islands with limited liability on 28 March 2002 under the name of First Choice Resources Limited. Pursuant to a resolution in writing of the director of First Choice passed on 18 September 2006, the name of First Choice was changed to First Choice Resources Limited (飛彩資源有限公司). Its registered office and principal place of business is located at Sea Meadow House, Blackburne Highway, (P.O. Box 116), Road Town, Tortola, British Virgin Islands.

The Financial Information is presented in Hong Kong Dollar ("HK$") which is the same as the functional currency of First Choice.

First Choice was principally engaged in investment holding.

2. LOSS BEFORE TAXATION

The loss before taxation is arrived at after charging the following:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Auditors' remuneration	–	5	–
Bank interest income	(4)	(2)	(4)

3. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

No directors and senior management of First Choice received any emoluments in respect of their services to the Company during the Relevant Period.

4. TAXATION

No provision for Hong Kong profits tax and PRC corporate income tax has been made as First Choice had no assessable profits arising from Hong Kong and the PRC during the Relevant Periods.

The reconciliation between First Choice's loss before taxation and the amount which is calculated based on the applicable tax rate of 33% is as follows:

	Year ended 31 December					
	2004		**2005**		**2006**	
	HK$'000		*HK$'000*		*HK$'000*	
	Audited	*%*	*Audited*	*%*	*Audited*	*%*
Loss before tax	(5)		(15)		(22)	
Tax calculated at the applicable tax rate of 33%	(2)	33	(5)	33	(7)	33
Expenses not deductible for tax	2	(33)	5	(33)	7	(33)
Tax charge	–	N/A	–	N/A	–	N/A

There was no material unprovided deferred tax for the Relevant Periods and as at the balance sheet dates.

5. AVAILABLE FOR SALE INVESTMENT

	31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Unlisted shares, at cost	–	–	82
Less: Impairment loss	–	–	–
At balance sheet date, net of impairment loss	–	–	82

Particulars of available for sale investment are as follows:

Name	Particulars of interest in paid up capital	Place of registration	Percentage of equity interest attributable to First Choice	Principal activities
Mingrunfeng	RMB81,650	PRC	16.33%*	Coal exploration and mining business

* *Pursuant to the Capital Contribution Agreement entered into between First Choice, Jumplex, Wise House, Mr. Yang and Bright Asset dated 2 September 2006, Bright Asset will contribute RMB20 million to the capital of Mingrunfeng in return for an enlarged 51% equity interest of Mingrunfeng. Upon completion of the Capital Contribution Agreement, First Choice's interest in Mingrunfeng will be diluted to 8%.*

6. LOAN TO A THIRD PARTY

The loan was provided by First Choice to a third party and was interest-free, unsecured and originally due for repayment on 31 December 2002. The loan to the third party was fully recovered subsequent to the balance sheet date on 13 February 2007.

7. DUE TO A SHAREHOLDER

The amount due to a shareholder is unsecured, interest-free and has no fixed terms of repayment.

8. SHARE CAPITAL

	HK$'000 Audited
Authorised:	
50,000 ordinary shares of US$1.00 each as at 31 December 2004, 2005 and 2006	390
Issued and fully paid:	
1 ordinary share of US$1.00 each as at 31 December 2004, 2005 and 2006	–

On incorporation, First Choice's authorised capital was US$50,000, divided into 50,000 ordinary shares of US$1.00 each, of which 1 share of US$1 each was issued at par for cash on incorporation as a subscriber share.

9. CONTINGENT LIABILITIES

(a) On 10 November 2006, First Choice entered into a loan agreement with Mingrunfeng, Mr. Yang, Jumplex and Wise House. Pursuant to the loan agreement, Mr. Yang had provided a loan of RMB1,000,000 to Mingrunfeng which bears interest at monthly rate of 1.5%, is unsecured and is jointly guaranteed by First Choice, Jumplex and Wise House. The loan is original repayable on or before 8 February 2007. Pursuant to a supplemental agreement dated 20 January 2007, the repayment date of the loan is extended for three months to 8 May 2007.

(b) On 16 November 2006, First Choice further entered into three loan facility agreements with Lender B, independent third party, Mingrunfeng, Jumplex, Wise House and Mr. Yang. Pursuant to these loan agreements, Lender B agreed to provide loans of RMB1,000,000, RMB1,000,000 and RMB2,000,000 to Mingrunfeng which bear interest at a monthly rate of 1.6%, 1.5% and 1.5%, respectively and are repayable within three months from the drawn down date. The loans are unsecured and are jointly guaranteed by First Choice, Jumplex, Wise House and Mr. Yang. As at balance sheet date, an aggregate loan amount of RMB2,500,000 had been drawn down by Mingrufeng of which RMB1,000,000, RMB1,000,000, and RMB500,000 are original due for repayment on or before 17 February 2007, 2 March 2007 and 22 March 2007, respectively. Subsequent to the balance sheet date, further amounts of RMB500,000 and RMB1,000,000 were drawn by Mingrunfeng which are due for repayment on or before 8 April 2007 and 27 June 2007, respectively. Pursuant to a supplemental agreement dated 20 January 2007, the repayment dates of the loans are extended for three months to 17 May 2007, 2 June 2007, 22 June 2007, 8 July 2007 and 27 September 2007, respectively.

Save as disclosed above, First Choice did not have other significant contingent liabilities as at the balance sheet dates.

10. SIGNIFICANT POST BALANCE SHEET EVENTS

(a) On 16 January 2007, Ms. Lee, the sole shareholder of First Choice, entered into the First Choice Acquisition Agreement with Bright Asset for disposal of the entire issued share capital in First Choice and the outstanding shareholder's loan at the date of completion of the First Choice Acquisition Agreement to Bright Asset at a consideration of HK$19.5 million. Pursuant to the First Choice Acquisition Agreement, among other things, Bright Asset has undertaken Ms. Lee to procure First Choice to repay Ms. Lee an amount of HK$619,000 upon recovery of a third party loan due to First Choice (note 6). Upon completion of the First Choice Acquisition Agreement, First Choice will become a wholly owned subsidiary of Bright Asset.

(b) On 20 January 2007, First Choice entered into a loan facility agreement with Lender A, an independent third party, with Mingrunfeng, First Choice, Wise House and Mr. Yang. Pursuant to the agreement, Lender A has provided a loan in the amount of RMB1,500,000 to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable on or before 18 July 2007. The loan is unsecured and is jointly guaranteed by First Choice, Jumplex, Wise House and Mr. Yang.

(c) On 19 March 2007, First Choice further entered into two loan facility agreements with Lender A and Lender C, an independent third party, with Mingrunfeng, Jumplex, Wise House and Mr. Yang. Pursuant to the agreements, Lender A and Lender C will provide loans in the amount of RMB3,000,000 and RMB3,000,000, respectively to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The loans are unsecured and are jointly guaranteed by First Choice, Jumplex, Wise House and Mr. Yang. As at the date of this report, the full loan amount of RMB6,000,000 had been drawn down by Mingrunfeng of which RMB3,000,000 is due for repayment on or before 21 September 2007 and RMB3,000,000 is due for repayment on or before 22 September 2007.

Save as disclosed above, First Choice did not have other significant subsequent events took place subsequent to 31 December 2006.

11. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

First Choice is exposed to various kinds of risks in its operation and financial instruments. First Choice's risk management objectives and polices mainly focused on investing the potential adverse effects of these risks on First Choice by closely monitoring the individual investing as follows:

(a) Credit risk

First Choice's credit risk is primarily attributable to bank balances. All the bank balances were made with financial institutions with high-credit quality.

(b) Liquidity risk

The shareholder and director of First Choice have indicated his willingness to continue financing the operations of First Choice in order to fund any emergency liquidity requirement.

(c) Cash flows and fair value interest rate risk

First Choice has no significant interest-bearing financial assets and liabilities. First Choice's results and operating cash flows are substantially independent of changes in market interest rates.

(d) Foreign exchange risk

First Choice does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Hong Kong Dollar.

12. SUBSEQUENT FINANCIAL STATEMENT

No audited financial statements have been prepared for First Choice in respect of any period subsequent to 31 December 2006.

C. FINANCIAL INFORMATION OF WISE HOUSE

INCOME STATEMENT

	Notes	Period from 7 July 2004 (date of incorporation) to 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006
		HK$'000	*HK$'000*	*HK$'000*
		Audited	Audited	Audited
REVENUE		–	–	–
Cost of sales		–	–	–
Gross profit		–	–	–
General and administrative expenses		(6)	(9)	(38)
LOSS BEFORE TAXATION	*2*	(6)	(9)	(38)
Taxation	*5*	–	–	–
LOSS FOR THE PERIOD/ YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF WISE HOUSE		(6)	(9)	(38)
DIVIDENDS		NIL	NIL	NIL

BALANCE SHEET

		31 December		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		Audited	Audited	Audited
NON-CURRENT ASSET				
Interest in an associate	*5*	–	–	194
CURRENT ASSETS				
Due from shareholders	*6*	273	273	238
Cash and bank balances		2	2	–
		275	275	238
CURRENT LIABILITIES				
Other payables and accruals		–	9	204
NET CURRENT ASSETS		275	266	34
NET ASSETS		275	266	228
SHAREHOLDERS' EQUITY				
Share capital	*7*	281	281	281
Reserves		(6)	(15)	(53)
		275	266	228

STATEMENT OF CHANGES IN EQUITY

	Issued capital	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Issue of shares upon incorporation	281	–	281
Loss for the period	–	(6)	(6)
At 31 December 2004 and 1 January 2005	281	(6)	275
Loss for the year	–	(9)	(9)
At 31 December 2005 and 1 January 2006	281	(15)	266
Loss for the year	–	(38)	(38)
At 31 December 2006	281	(53)	228

CASH FLOW STATEMENT

	Period from 7 July 2004 (date of incorporation) to 31 December	Year ended 31 December	
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Cash flows from operating activities			
Loss before taxation	(6)	(9)	(38)
Increase in other payables and accruals	–	9	1
Net cash used in operating activities	(6)	–	(37)
Cash flows from investing activities			
(Increase)/decrease in amount due from shareholders	(273)	–	35
Net cash generated from/(used in) investing activities	(273)	–	35
Cash flows from financing activities			
Proceed from issue of shares	281	–	–
Net cash generated from financing activities	281	–	–
Net increase/(decrease) in cash and cash equivalents	2	–	(2)
Cash and cash equivalents at beginning of period/year	–	2	2
Cash and cash equivalents at end of period/year	2	2	–
Analysis of balances of cash and cash equivalents			
Cash and bank balances	2	2	–

NOTES TO FINANCIAL INFORMATION OF WISE HOUSE

1. GENERAL

Wise House is incorporated in British Virgin Islands with limited liability on 7 July 2004 under the name of Wise House Limited. Pursuant to a resolution in writing of the directors of Wise House passed on 16 September 2006, the name of Wise House was changed to Wise House Limited (滿屋投資控股有限公司). Its registered office and principal place of business is located at Drake Chambers, Road Town, Tortola, British Virgin Islands.

The Financial Information is presented in Hong Kong Dollar ("HK$") which is the same as the functional currency of Wise House.

Wise House was principally engaged in investment holding.

2. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging the following:

	Period from 7 July 2004 (date of registration) to 31 December	Year ended 31 December	
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Auditors' remuneration	–	4	–

3. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

No directors and senior management of Wise House received any emoluments in respect of their services to the Company during the Relevant Period.

4. TAXATION

No provision for Hong Kong profits tax and PRC corporate income tax has been made as Wise House had no assessable profits arising from Hong Kong and the PRC during the Relevant Periods.

The reconciliation between Wise House's loss before taxation and the amount which is calculated based on the applicable tax rate of 33% is as follows:

	Period from 7 July 2004 (date of registration) to 31 December		Year ended 31 December			
	2004		**2005**		**2006**	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%
	Audited		Audited		Audited	
Loss before tax	(6)		(9)		(38)	
Tax calculated at the applicable tax rate of 33%	(2)	33	(3)	33	(13)	33
Expenses not deductible for tax	2	(33)	3	(33)	13	(33)
Tax charge	–	–	–	–	–	–

There was no material unprovided deferred tax for the Relevant Periods and as at the balance sheet dates.

5. INTEREST IN AN ASSOCIATE

	31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Unlisted shares, at cost	–	–	194
Less: Impairment loss	–	–	–
At balance sheet date, net of impairment loss	–	–	194

Particulars of interest in an associate are as follows:

Name	Particulars of interest in paid up capital	Place of registration	Percentage of equity interest attributable to Wise House	Principal activities
Mingrunfeng	RMB193,900	PRC	38.78%*	Coal exploration and mining business

* *Pursuant to the Capital Contribution Agreement entered into between Wise House, Jumplex, First Choice, Mr. Yang and Bright Asset dated 2 September 2006, Bright Asset will contribute RMB20 million to the capital of Mingrunfeng in return for an enlarged 51% equity interest of Mingrunfeng. Upon completion of the Capital Contribution Agreement, Wise House's interest in Mingrunfeng will be diluted to 19%.*

6. DUE FROM SHAREHOLDERS

Name of shareholders	31 December			Maximum amount due from shareholders During the period/year ended 31 December		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Audited			
Chan Aik Huat, Simon	172	172	150	177	172	172
Chung Cheuk Wah, Sammy	101	101	88	104	101	101
	273	273	238			

The amount due from shareholders are unsecured, interest-free and has no fixed terms of repayment.

7. SHARE CAPITAL

	HK$'000
	Audited
Authorised:	
50,000 ordinary shares of US$1.00 each as at 31 December 2004, 2005 and 2006	390
Issued and fully paid:	
36,000 ordinary shares of US$1.00 each as at 31 December 2004, 2005 and 2006	281

On incorporation, Wise House's authorised capital was US$50,000, divided into 50,000 ordinary shares of US$1.00 each, of which 36,000 shares of US$1 each were issued at par for cash on incorporation as subscriber shares.

8. CONTINGENT LIABILITIES

(a) On 10 November 2006, Wise House entered into a loan agreement with Mingrunfeng, Mr. Yang, Jumplex and First Choice. Pursuant to the loan agreement, Mr. Yang agreed to provide a loan of RMB1,000,000 to Mingrunfeng which bears interest at monthly rate of 1.5%, is unsecured and is jointly guaranteed by Wise House, Jumplex and First Choice. The loan is original repayable on or before 8 February 2007. Pursuant to a supplemental agreement dated 20 January 2007, the repayment date of the loan is extended for three months to 8 may 2007.

(b) On 16 November 2006, Wise House further entered into three loan facility agreements with Lender B, an independent third party, Mingrunfeng, Jumplex, First Choice and Mr. Yang. Pursuant to these loan agreements, Lender B agreed to provide loans of RMB1,000,000, RMB1,000,000 and RMB2,000,000 to Mingrunfeng which bear interest at a monthly rate of 1.6%, 1.5% and 1.5%, respectively and are repayable within three months from the drawn down date. The loans are unsecured and are jointly guaranteed by Wise House, Jumplex, First Choice and Mr. Yang. As at the balance sheet date, an aggregate loan amount of RMB2,500,000 had been drawn down by Mingrunfeng of which RMB1,000,000, RMB1,000,000 and RMB500,000 are original due for repayment on or before 17 February 2007, 2 March 2007 and 22 March 2007, respectively. Subsequent to the balance sheet date, further amounts of RMB500,000 and RMB1,000,000 were drawn by Mingrunfeng which are due for repayment on or before 8 April 2007 and 27 June 2007, respectively. Pursuant to a supplemental agreement dated 20 January 2007, the repayment dates of the loans are extended for three months to 17 May 2007, 2 June 2007, 22 June 2007, 8 July 2007 and 27 September 2007, respectively.

Save as disclosed above, Wise House did not have significant contingent liabilities as at the balance sheet dates.

9. SIGNIFICANT POST BALANCE SHEET EVENTS

(a) On 16 January 2007, Mr. Chan and Mr. Chung, the shareholders of Wise House, entered into the Wise House Acquisition Agreement with Bright Asset for disposal of the entire issued share capital in Wise House to Bright Asset at a consideration of HK$46.3 million. Upon completion of the Wise House Acquisition Agreement, Wise House will become a wholly owned subsidiary of Bright Asset.

(b) On 20 January, Wise House entered into a loan facility agreement with Lender A, an independent third party, with Mingrunfeng, First Choice, Wise House and Mr. Yang. Pursuant to the agreement, Lender A has provided a loan in the amount of RMB1,500,000 to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable on or before 18 July 2007. The loan is unsecured and is jointly guaranteed by Wise House, Jumplex, First Choice and Mr. Yang.

(c) On 19 March 2007, Wise House further entered into two loan facility agreements with Lender A and Lender C, an independent third party, with Mingrunfeng, Jumplex, First Choice and Mr. Yang. Pursuant to the agreements, Lender A and Lender C will provide loans in the amount of RMB3,000,000 and RMB3,000,000, respectively to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The loans are unsecured and are jointly guaranteed by Wise House, Jumplex, First Choice and Mr. Yang. As at the date of this report, the full loan amount of RMB6,000,000 had been drawn down by Mingrunfeng of which RMB3,000,000 is due for repayment on or before 21 September 2007 and RMB3,000,000 is due for repayment on or before 22 September 2007.

Save as disclosed above, Wise House did not have other significant subsequent events took place subsequent to 31 December 2006.

10. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Wise House is exposed to various kinds of risks in its operation and financial instruments. Wise House's risk management objectives and polices mainly focused on investing the potential adverse effects of these risks on First Choice by closely monitoring the individual investing as follows:

(a) Credit risk

Wise House's credit risk is primarily attributable to bank balances and amount due from shareholder(s). All the bank balances were made with financial institutions with high-credit quality.

(b) Liquidity risk

Wise House manages its fund conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need.

(c) Cash flows and fair value interest rate risk

Wise House has no significant interest-bearing financial assets and liabilities. Wise House's results and operating cash flows are substantially independent of changes in market interest rates.

(d) Foreign exchange risk

Wise House does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Hong Kong Dollar.

11. SUBSEQUENT FINANCIAL STATEMENT

No audited financial statements have been prepared for Wise House in respect of any period subsequent to 31 December 2006.

D. FINANCIAL INFORMATION OF MINGRUNFENG

INCOME STATEMENT

		Year ended 31 December		
		2004	2005	2006
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		Audited	Audited	Audited
REVENUE	*2*	67	–	–
Cost of sales		–	–	–
Gross profit		67	–	–
Other income	*2*	4	2	5
General and administrative expenses		(174)	(203)	(1,395)
Finance costs	*5*	–	–	(809)
LOSS BEFORE TAXATION	*4*	(103)	(201)	(2,199)
Taxation	*8*	–	–	–
LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF MINGRUNFENG		(103)	(201)	(2,199)
DIVIDENDS		–	–	–

* *The results of Mingrunfeng for the year ended 31 December 2004 were solely related to the trading of construction materials and electrical appliance and the provision of related consultancy services which had been discontinued in June 2004.*

The results of Mingrunfeng for the year ended 31 December 2006 were solely related to the exploration of coal.

BALANCE SHEET

		31 December		
		2004	**2005**	**2006**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*
		Audited	Audited	Audited
NON-CURRENT ASSETS				
Property, plant and equipment	*9*	34	25	29
Intangible assets	*10*	–	–	23,885
		34	25	23,914
CURRENT ASSETS				
Other receivables		15	15	–
Due from a director	*11*	–	–	788
Cash and bank balances		489	311	458
		504	326	1,246
CURRENT LIABILITIES				
Trade payables	*12*	–	–	5,585
Other payables and accruals		16	1	1,115
Deposit received	*13*	–	–	15,000
Other loans	*14*	–	–	4,500
Due to a director	*11*	162	191	–
Loan from a director	*15*	–	–	1,000
		178	192	27,200
NET CURRENT ASSETS/ (LIABILITIES)		326	134	(25,954)
NET ASSETS/(LIABILITIES)		360	159	(2,040)
SHAREHOLDERS' EQUITY/ (DEFICIENCY IN ASSETS)				
Paid-up capital	*16*	500	500	500
Reserves		(140)	(341)	(2,540)
		360	159	(2,040)

STATEMENT OF CHANGES IN EQUITY

	Paid-up capital	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
At 1 January 2004	500	(37)	463
Loss for the year	–	(103)	(103)
At 31 December 2004 and 1 January 2005	500	(140)	360
Loss for the year	–	(201)	(201)
At 31 December 2005 and 1 January 2006	500	(341)	159
Loss for the year	–	(2,199)	(2,199)
At 31 December 2006	500	(2,540)	(2,040)

CASH FLOW STATEMENT

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Cash flows from operating activities			
Loss before taxation	(103)	(201)	(2,199)
Adjustments for:			
Interest income	(4)	(2)	(5)
Interest expenses	–	–	809
Depreciation	5	9	7
Operating cash flows before working capital changes	(102)	(194)	(1,388)
Decrease in other receivables	–	–	15
Increase in amount due from a director	–	–	(788)
Increase/(decrease) in other payables and accruals	16	(15)	305
Increase/(decrease) in amount due to a director	(338)	29	(191)
Cash used in operation	(439)	(180)	(2,047)
Interest received	4	2	5
Net cash used in operating activities	(435)	(178)	(2,042)
Cash flows from investing activities			
Purchase of property, plant and equipment	(39)	–	(11)
Acquisition of intangible assets	–	–	(18,300)
Net cash used in investing activities	(39)	–	(18,311)
Cash flows from financing activities			
Paid up capital	–	–	–
Deposit received	–	–	15,000
New other loans obtained	–	–	17,500
Loan from a director	–	–	1,000
Other loans repaid	–	–	(13,000)
Net cash generated from financing activities	–	–	20,500
Net increase/(decrease) in cash and cash equivalents	(474)	(178)	147
Cash and cash equivalents at beginning of year	963	489	311
Cash and cash equivalents at end of year	489	311	458
Analysis of balances of cash and cash equivalents			
Cash and bank balances	489	311	458

NOTES TO FINANCIAL INFORMATION OF MINGRUNFENG

1. GENERAL

Mingrunfeng is established and registered in the PRC with limited liability on 24 September 2003.

The Financial Information is presented in Hong Kong Dollar ("HK$") and its functional currency is Renminbi.

Mingrunfeng was principally engaged in the trading of construction materials and electrical appliance and the provision of related consultancy services until June 2004. Mingrunfeng commenced its business of exploring and mining of coal in June 2006.

2. REVENUE AND OTHER INCOME

Revenue, which is also Mingrunfeng's turnover, represents the invoiced value of services rendered and goods sold, after deducting goods returns, trade discounts and sale tax.

Revenue and other income consisted of:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Revenue:			
Sales of construction materials and electric appliance	11	–	–
Consultancy services income	56	–	–
	67	–	–
Other income:			
Interest income	4	2	5
Total revenue	71	2	5

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Segment information is presented by way of Mingrunfeng's primary segment reporting basis, by business segment. No further geographical segment information is presented as 100% of Mingrunfeng' revenue is derived from customers and operations are located in the PRC.

For the year ended 31 December 2004, Mingrunfeng was solely engaged in the trading of construction materials and electrical appliance and the provision of related consultancy services. Accordingly, no analysis of Mingrunfeng's business segments is presented for the said periods.

For the year ended 31 December 2005, Mingrunfeng was dormant and, accordingly, no analysis of Mingrunfeng's business segments is presented for the year.

For the year ended 31 December 2006, Mingrunfeng was solely engaged in business in exploring and mining of coal. Accordingly, no analysis of Mingrunfeng's business segments is presented for the year.

4. LOSS BEFORE TAXATION

The loss before taxation is stated after charging/(credit) the following:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Auditors' remuneration	–	–	–
Depreciation	5	9	7
Staff costs (excluding directors' remuneration *(note 7)*)	81	137	144
Bank interest income	(4)	(2)	(5)

5. FINANCE COSTS

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Interest on other loans	–	–	809

6. STAFF RETIREMENT BENEFITS

The employees of Mingrunfeng is a member of a state-sponsored retirement plan operated by the local government in the PRC and it makes mandatory contributions to the state-sponsored retirement plan to fund the employee retirement benefits. The retirement contributions paid by Mingrunfeng is based on certain percentage of the relevant portion of the payroll of all qualifying employees in accordance with the relevant regulations in the PRC and is charged to the combined income statement as incurred. Mingrunfeng discharges its retirement obligations upon payment of the retirement contributions to the state-sponsored retirement plan operated by the local government in the PRC.

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(i) The directors of Mingrunfeng were members of the senior management of Mingrunfeng throughout the Relevant Periods. Assuming these existing directors had already been appointed directors at the beginning of the Relevant Periods, details of directors' emoluments paid by Mingrunfeng can be summarised as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Fees	–	–	–
Other emoluments			
– salaries	23	30	75
	23	30	75

The director's emoluments were paid to Mr. Yang Runzhi during the Relevant Periods.

The emoluments of the above director fall within the band from Nil to HK$1,000,000 during the Relevant Periods.

During the Relevant Periods, no director of Mingrunfeng waived any emoluments and no emoluments were paid or payable by Mingrunfeng as an inducement to join or upon joining Mingrunfeng, or as compensation for loss of office.

(ii) Details of the emoluments paid to the five highest paid individuals (including 1 director and 4 other employees) are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Salaries and allowances	71	101	183
Contributions to retirement scheme	–	–	–
	71	101	183

During the Relevant Periods, no emolument was paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining Mingrunfeng or as compensation of loss of office.

The emoluments of all the five highest paid individuals (including 1 director and 4 other employees) for the Relevant Periods are below HK$1,000,000.

8. TAXATION

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
PRC corporate income tax	–	–	–

(i) No provision for PRC corporate income tax has been made as Mingrunfeng had no assessable profits arising from the PRC during the Relevant Periods.

(ii) As at 31 December 2004, 2005 and 2006, Mingrunfeng had unrecognised deferred tax assets, in relation to tax losses, of approximately HK$46,000, HK$112,000 and HK$838,000, respectively.

The reconciliation between Mingrunfeng's loss for the year and the amount which is calculated based on the applicable tax rate of 33% is as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Loss before taxation for the year	(103)	(201)	(2,199)
Tax calculated at the applicable tax rate of 33%	(34)	(66)	(726)
Tax benefits not recognised	34	66	726
Tax charge	–	–	–
Effective tax rate	–	–	–

9. PROPERTY, PLANT AND EQUIPMENT

	31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Furniture and equipment			
At beginning of year			
Cost	–	39	39
Accumulated depreciation	–	(5)	(14)
Net carrying amount	–	34	25
At beginning of year, net of accumulated depreciation	–	34	25
Additions during the year	39	–	11
Depreciation provided during the year	(5)	(9)	(7)
At balance sheet date, net of accumulated depreciation	34	25	29
At balance sheet date			
Cost	39	39	50
Accumulated depreciation	(5)	(14)	21
Net carrying amount	34	25	29

10. INTANGIBLE ASSETS

Intangible assets represented cost incurred in relation to the exploration sub-licensing right and the exploration work of the Coal Mine. Details of the movement in intangible assets during the Relevant Periods are as follows:

	31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
At beginning of year	–	–	–
Additions during the year, at cost	–	–	23,885
Less: Impairment loss	–	–	–
At balance sheet date, net of impairment loss, at cost	–	–	23,885

Pursuant to an agreement dated 7 June 2006, Mingrunfeng has paid RMB9,380,000 to an independent third party as the consideration to secure the entering of the Co-Operation Agreement with Guoxin. The Co-Operation Agreement enables Mingrunfeng to explore and assess the reserves of the Coal Mine up to June 2007.

The exploration works are executed by an independent exploration company employed by Mingrunfeng. The costs of the exploration works incurred up to 31 December 2006 amounted to approximately RMB14,505,000.

The exploration works of Coal Mine has reached the general exploration stage as at the balance sheet date. Pursuant to the Co-Operation Agreement, Guoxin will transfer its entire exploration rights of the Coal Mine to Mingrunfeng at a consideration calculated at 20% of the value of the exploration rights of the Coal Mine (note 19(d)).

11. DUE FROM/(TO) A DIRECTOR

Name of director	31 December			Maximum amount due from the director During the year ended 31 December		
	2004	**2005**	**2006**	**2004**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Audited			
Yang Runzhi	(162)	(191)	788	–	–	788
	(162)	(191)	788			

The amount due from/(to) a director is unsecured, interest-free and has no fixed terms of repayment.

12. TRADE PAYABLES

The ageing analysis of trade payables is as follows:

	31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Current – not due	–	–	–
0 to 30 days	–	–	5,585
	–	–	5,585

13. DEPOSIT RECEIVED

The balance represented the deposit received from Bright Asset pursuant to the Capital Contribution Agreement whereby subject to, inter alia, the approval by the relevant PRC authorities and fulfilling the requirements under the listing rules of The Stock Exchange of Hong Kong Limited, Bright Asset will contribute a total amount of RMB20,000,000 (financed by the deposit of RMB15,000,000 and a further cash contribution of RMB5,000,000) to the capital of Mingrunfeng in return for its enlarged 51% equity interest. Upon completion of the capital contribution, RMB520,000 will be used to increase the registered capital and the remaining RMB19,480,000 will be credited to the capital reserve account of Mingrunfeng.

14. OTHER LOANS

The other loans are granted by certain independent third parties to Mingrunfeng at the following terms:

Draw down date of loan	Lender	Amount	Interest rate	Due date	Guarantors
24 August 2006	A	RMB2,000,000	Interest free	31 December 2006	Mr. Yang and the director of Jumplex
17 November 2006	B	RMB1,000,000	1.6% per month	17 February 2007	Mr. Yang, Jumplex, First Choice and Wise House
2 December 2006	B	RMB1,000,000	1.5% per month	2 March 2007	Mr. Yang, Jumplex, First Choice and Wise House
22 December 2006	B	RMB500,000	1.5% per month	22 March 2007	Mr. Yang, Jumplex, First Choice and Wise House

Pursuant to respective supplemental agreements entered into between Mingrunfeng, the guarantors and Lender A and B dated 20 January 2007, the due dates for repayment of the above loans are extended to 30 June 2007, 17 May 2007, 2 June 2007 and 22 June 2007, respectively.

15. LOAN FROM A DIRECTOR

The amount is unsecured, bears interest at a monthly rate of 1.5% and is original due for repayment on or before 8 February 2007. Pursuant to a supplemental agreement dated 20 January 2007, the repayment date of the loan is extended for three months to 8 May 2007. The loan is jointly guaranteed by Jumplex, First Choice and Wise House.

16. REGISTERED AND PAID-UP CAPITAL

	HK$'000
	Audited
Registered and fully paid-up as at 31 December 2004, 2005 and 2006	500

The registered capital of Mingrunfeng was RMB500,000 upon registration, which was paid up in cash on registration.

17. RELATED PARTY TRANSACTIONS

Mingrunfeng had the following transactions with related parties during the year:

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Loan interest paid/payable to a director of Mingrunfeng, Mr. Yang Runzhi	–	–	467

18. OPERATING LEASE ARRANGEMENTS

As lessee

Mingrunfeng leases its office under operating lease arrangement for a term of 5 years.

At each balance sheet date, Mingrunfeng had total future minimum lease payments under non-cancelable operating leases falling due as follows:

	31 December		
	2004	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*
	Audited	Audited	Audited
Within one year	3	3	2
In the second to fifth years, inclusive	8	5	–
	11	8	2

19. SIGNIFICANT POST BALANCE SHEET EVENTS

(a) On 16 January 2007, Bright Asset entered into three acquisition agreements with the shareholders of Jumplex, First Choice and Wise House. Pursuant to these agreements, Bright Asset will acquire the entire issued share capital of Jumplex, First Choice and Wise House. Upon completion of these agreements, Mingrunfeng will become a indirect wholly owned subsidiary of Bright Asset.

(b) Pursuant to a loan agreement entered by Mingrunfeng with Lender B on 16 November 2006, Lender B will provide a loan of RMB2,000,000 to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable within six months from the drawn down date. Mingrunfeng has drawn down RMB500,000 on 22 December 2006 (note 14), and additional amounts of RMB500,000 and RMB1,000,000 subsequent to the balance sheet date on 8 January 2007 and 27 March 2007, respectively. The loans are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang.

(c) On 20 January 2007, Mingrunfeng entered into a loan facility agreement with Lender A, Jumplex, First Choice, Wise House and Mr. Yang. Pursuant to this loan agreement, Lender A will provide a loan of RMB1,500,000 to Mingrunfeng which bears interest at a monthly rate of 1.5% and is repayable within six months from the drawn down date. The loan is unsecured and is jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang. As at the date of this report, loan amount of RMB1,500,00 had been drawn down by Mingrunfeng which is due for repayment on or before 18 July 2007.

(d) On 10 March 2007, Mingrunfeng entered into a supplemental agreement with Guoxin in relation to the transfer of the exploration licence (the "Exploration License") of the Coal Mine. Pursuant to this supplemental agreement, Guoxin will transfer the Exploration License to Mingrunfeng upon the payment by Mingrunfeng (i) RMB5 million to Guoxin as prepayment of part of the 20% of the value of the exploration rights of the Coal Mine, being the consideration for the transfer of the Exploration License and (ii) RMB2,278,000 to the Department of Land and Resources of the Inner Mongolia Autonomous Region as the premium for the transfer of the Exploration License. The supplemental agreement also specified that any remaining cash consideration for the transfer of the Exploration License shall be paid to Guoxin within three months after the value of the exploration rights of the Coal Mine is being appraised by an independent valuation institution. Mingrunfeng has paid RMB5 million and RMB2,278,000 to Guoxin and the Department of Land and Resources of the Inner Mongolia Autonomous Region on 26 March 2007, respectively. The transfer of the Exploration License to Mingrunfeng is under process as at the date of this report.

(e) On 19 March 2007, Mingrunfeng further entered into two loan facility agreements with Lender A and Lender C, an independent third party, with Jumplex, First Choice, Wise House and Mr. Yang as guarantors. Pursuant to the agreements, Lender A and Lender C will provide loans in the amount of RMB3,000,000 and RMB3,000,000, respectively to Mingrunfeng which bear interest at a monthly rate of 1.5% and are repayable within six months from the drawn down date. The loans are unsecured and are jointly guaranteed by Jumplex, First Choice, Wise House and Mr. Yang. As at the date of this report, the full loan amount of RMB6,000,000 had been drawn down by Mingrunfeng of which RMB3,000,000 is due for repayment on or before 21 September 2007 and RMB3,000,000 is due for repayment on or before 22 September 2007.

Save as disclosed above, Mingrunfeng did not have other significant subsequent events took place subsequent to 31 December 2006.

20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Mingrunfeng is exposed to various kinds of risks in its operation and financial instruments. Mingrunfeng's risk management objectives and polices mainly focused on minimising the potential adverse effects of these risks on Mingrunfeng by closely monitoring the individual exposure as follows:

(a) Credit risk

Mingrunfeng's credit risk is primarily attributable to bank balances and amount due from a director. All the bank balances were made with financial institutions with high-credit quality.

(b) Liquidity risk

The Company manages its fund conservatively by maintaining a comfortable level of cash and cash equivalents in order to meet continuous operational need. Pursuant to the Loan Facility Agreement, Bright Asset had conditionally agreed to provide a revolving loan of up to RMB40,000,000 to finance the operations of Mingrunfeng in meeting of its emergency liquidity requirement.

(c) Cash flows and fair value interest rate risk

Mingrunfeng's exposure to the risk of changes in market interest rates relates primarily to its other loans and the revolving loan facility provided by Bright Asset with a floating interest rate.

(d) Foreign exchange risk

Mingrunfeng does not have significant foreign exchange risk arising from future commercial transactions and recognised financial assets and liabilities since almost all of them are denominated in Renminbi ("RMB").

21. SUBSEQUENT FINANCIAL STATEMENT

No audited financial statements have been prepared for Mingrunfeng in respect of any period subsequent to 31 December 2006.

Yours faithfully,

Cachet Certified Public Accountants Limited
Certified Public Accountants
Hong Kong 30 March 2007
Chan Chi Yuen
Practising Certificate Number P02671

The following is the text of a report, prepared for the purpose of incorporation in this circular, from Cachet Certified Public Accountants Limited in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this appendix:

CACHET

Cachet Certified Public Accountants Limited

德揚會計師事務所有限公司

31 January 2008

The Directors
Kiu Hung International Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Kiu Hung International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Jumplex Investment Limited ("Jumplex"), First Choice Resources Limited ("First Choice"), Wise House Limited ("Wise House") and Beijing Mingrunfeng Trading Co., Limited ("Mingrunfeng")(together with the Group hereinafter referred to as the "Enlarged Group"), which has been prepared by the Directors of the Company for illustrative purposes only, to provide information about how (a) the proposed acquisition of the entire issued share capital of Jumplex, First Choice and Wise House by Bright Asset at a consideration of HK$27.8 million, HK$37.1 million and HK$88.2 million, respectively, pursuant to three sales and purchase agreements dated 16 January 2007 (the "New Acquisition"); (b) the proposed contribution of RMB20 million by Bright Asset Investments Limited ("Bright Asset"), a wholly owned subsidiary of the Company, in return for an enlarged 51% equity interest in the capital of Mingrunfeng pursuant to a capital contribution agreement dated 2 September 2006 (the "Capital Contribution') and (c) the proposed conditional acquisition of an additional 16% equity interest in the enlarged paid up capital of Mingrunfeng by Bright Asset at a consideration of HK$141.8 million from Mr. Yang Runzhi (the "2nd Acquisition"), might have affected the financial information presented, for inclusion as Appendix II to the circular of Company dated 31 January 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out in Section III of this Appendix below. Details of the Capital Contribution, New Acquisition and the 2nd Acquisition were in a circular of the Company dated 30 March 2007.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the Directors of Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance of indication that any event will take place in the future and may not be indicative of:

– the financial position of the Enlarged Group as at 31 December 2006 or at any future date; or

– the results of the Enlarged Group for the year ended 31 December 2006 or for any future periods.

OPINION

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Cachet Certified Public Accountants Limited
Certified Public Accountants
Hong Kong

Chan Chi Yuen
Practising Certificate Number P02671

1. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following Unaudited Pro forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the Capital Contribution, the New Acquisition and the 2nd Acquisition. Details of the Capital Contribution, New Acquisition and the 2nd Acquisition were in a circular of the Company dated 30 March 2007.

The unaudited pro forma income statement and cash flow statement of the Enlarged Group are prepared based on the audited income statement and cash flow statement of the Group for the year ended 31 December 2006 as extracted from the annual report of the Company and the audited income statements and cash flow statements of Jumplex Investment Limited ("Jumplex"), First Choice Resources Limited ("First Choice"), Wise House Limited ("Wise House") and Beijing Mingrunfeng Trading Co. Limited ("Mingrunfeng") (collectively, the "Mingrunfeng Group") as extracted from a circular of the Company dated 30 March 2007 and as if the Capital Contribution, the New Acquisition and the 2nd Acquisition have been completed on 1 January 2006.

The unaudited pro forma balance sheet of the Enlarged Group is prepared based on the audited balance sheet of the Group as at 31 December 2006 as extracted from the annual report of the Company and the audited balance sheets of Jumplex, First Choice Wise House and Mingrunfeng (collectively, the "Mingrunfeng Group") as extracted from a circular of the Company dated 30 March 2007 and as if the Capital Contribution, the New Acquisition and the 2nd Acquisition have been completed on 31 December 2006.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the completion of the Capital Contribution, the New Acquisition and the 2nd Acquisition. It is prepared for illustrative purpose only and it does not purport to represent what the results, cash flows or financial position of the Enlarged Group as on the completion of the Capital Contribution, the New Acquisition and the 2nd Acquisition.

2. UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED GROUP (ACQUISITION OF MINGRUNFENG)

	The Group 31 December 2006	Jumplex 31 December 2006	First Choice 31 December 2006	Wise House 31 December 2006	Mingrunfeng 31 December 2006	Sub-total	Pro-forma adjustment	The Group after 100% acquisition of Mingrunfeng
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Audited	Audited	Audited			Unaudited
Revenue	96,578	–	–	–	–	96,578		96,578
Cost of sales	(61,046)	–	–	–	–	(61,046)		(61,046)
Gross profit	35,532	–	–	–	–	35,532		35,532
Other income and gains	5,297	–	–	–	5	5,302		5,302
Selling and distribution expenses	(9,197)	–	–	–	–	(9,197)		(9,197)
General and administrative expenses	(25,500)	(20)	(22)	(38)	(1,395)	(26,975)		(26,975)
Other operating expenses	(1,024)	–	–	–	–	(1,024)		(1,024)
Share of profit of a jointly controlled entity	45	–	–	–	–	45		45
Finance expenses	(2,576)	–	–	–	(809)	(3,385)		(3,385)
Profit/(loss) before taxation	2,577	(20)	(22)	(38)	(2,199)	298	–	298
Tax charges	(1,437)	–	–	–	–	(1,437)		(1,437)
Profit/(loss) for the year/period	1,140	(20)	(22)	(38)	(2,199)	(1,139)	–	(1,139)
Proposed final dividend	299	–	–	–	–	299	–	299

3. UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP (ACQUISITION OF MINGRUNFENG)

	The Group 31 December 2006	Jumplex 31 December 2006	First Choice 31 December 2006	Wise House 31 December 2006	Mingrunfeng 31 December 2006	Sub-total	Pro-forma adjustment							Total Pro-forma adjustment	The Group after 100% acquisition of Mingrunfeng
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Audited	Audited	Audited		*(Note (a))*	*(Note (b))*	*(Note (c))*	*(Note (d))*	*(Note (e))*	*(Note (f))*	*(Note (g))*		Unaudited
Non-current assets															
Property, plant and equipment	63,877	–	–	–	29	63,906								–	63,906
Prepaid land lease payments	6,213	–	–	–	–	6,213								–	6,213
Investment property	400	–	–	–	–	400								–	400
Interest in a subsidiary	–	–	–	–	–	–								–	–
Interest in a jointly controlled entity	623	–	–	–	–	623								–	623
Interest in an associate	–	61	82	194	–	337	20,000	27,874	37,147	88,202	141,861		(315,421)	(337)	–
Intangible assets – Mining rights	–	–	–	–	–	–								–	–
Intangible assets – Exploration rights/exploration and evaluation assets	2,424	–	–	–	23,885	26,309								–	26,309
Other intangible assets	–	–	–	–	–	–								–	–
Deposit for acquisition of a company	15,000	–	–	–	–	15,000	(15,000)							(15,000)	–
Deferred tax assets	551	–	–	–	–	551								–	551
Goodwill	–	–	–	–	–	–						2,000	297,155	299,155	299,155
	89,088	61	82	194	23,914	113,339	5,000	27,874	37,147	88,202	141,861	2,000	(18,266)	283,818	397,157
Current assets															
Inventories	10,227	–	–	–	–	10,227								–	10,227
Trade and bill receivables	9,105	–	–	–	–	9,105								–	9,105
Prepayment, deposits and other receivables	1,716	–	–	–	–	1,716								–	1,716
Amount due from a jointly controlled entity	1,097	–	–	–	–	1,097								–	1,097
Amount due from related company	2,900	–	–	–	–	2,900								–	2,900
Amount due from a director	–	–	–	–	788	788								–	788
Amount due from shareholders	–	–	–	238	–	238								–	238
Loan to a third party	–	–	619	–	–	619							(619)	(619)	–
Financial assets at fair value through profit or loss	286	–	–	–	–	286								–	286
Cash & cash equivalents	85,224	–	83	–	458	85,765								–	85,765
Tax recoverable	153	–	–	–	–	153								–	153
	110,708	–	702	238	1,246	112,894	–	–	–	–	–	–	(619)	(619)	112,275

	The Group 31 December 2006	Jumplex 31 December 2006	First Choice 31 December 2006	Wise House 31 December 2006	Mingrunfeng 31 December 2006	Sub-total	Pro-forma adjustment							Total Pro-forma adjustment	The Group after 100% acquisition of Mingrunfeng
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Audited	Audited	Audited		*(Note (a))*	*(Note (b))*	*(Note (c))*	*(Note (d))*	*(Note (e))*	*(Note (f))*	*(Note (g))*		Unaudited
Current liabilities															
Due to a shareholder	–	–	–	–	–	–								–	–
Loan from a third party	–	–	–	–	–	–								–	–
Trade and bills payables	7,632	–	–	–	5,585	13,217								–	13,217
Other payables and accruals	4,902	62	86	204	1,115	6,369						2,000		2,000	8,369
Provision for tax	287	–	–	–	–	287								–	287
Deposit received	–	–	–	–	15,000	15,000	(15,000)							(15,000)	–
Bank and trust receipt loans	–	–	–	–	–	–								–	–
Other loans	33,066	–	–	–	4,500	37,566								–	37,566
Amount due to a shareholder	–	19	753	–	–	772							(772)	(772)	–
Loan from a director	–	–	–	–	1,000	1,000								–	1,000
Finance lease payables	–	–	–	–	–	–								–	–
	45,887	81	839	204	27,200	74,211	(15,000)	–	–	–	–	2,000	(772)	(13,772)	60,439
Net current assets/(liabilities)	64,821	(81)	(137)	34	(25,954)	38,683	15,000	–	–	–	–	(2,000)	153	13,153	51,836
Total assets less current liabilities	153,909	(20)	(55)	228	(2,040)	152,022	20,000	27,874	37,147	88,202	141,861	–	(18,113)	296,971	448,993
Non-current liabilities															
Convertible bonds	–	–	–	–	–	–								–	–
Bank loans	(1,766)	–	–	–	–	(1,766)								–	(1,766)
Deferred tax liabilities	(3,829)	–	–	–	–	(3,829)								–	(3,829)
	(5,595)	–	–	–	–	(5,595)	–	–	–	–	–	–	–	–	(5,595)
Net assets/(liabilities)	148,314	(20)	(55)	228	(2,040)	146,427	20,000	27,874	37,147	88,202	141,861	–	(18,113)	296,971	443,398
Equity															
Equity attributable to Company's equity holders															
Share Capital	59,773	–	–	281	500	60,554	520	887	1,182	2,807	2,364		(1,301)	6,459	67,013
Reserves	86,945	(20)	(55)	(53)	(2,540)	84,277	19,480	26,987	35,965	85,395	139,497		(16,812)	290,512	374,789
Equity component of convertible note	–	–	–	–	–	–								–	–
Proposed final dividend	299	–	–	–	–	299								–	299
	147,017	(20)	(55)	228	(2,040)	145,130	20,000	27,874	37,147	88,202	141,861	–	(18,113)	296,971	442,101
Minority interests	1,297	–	–	–	–	1,297	–	1,297							
Total equity/(deficiency)	148,314	(20)	(55)	228	(2,040)	146,427	20,000	27,874	37,147	88,202	141,861	–	(18,113)	296,971	443,398

4. UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT OF THE ENLARGED GROUP (ACQUISITION OF MINGRUNFENG)

	The Group 31 December 2006	Jumplex 31 December 2006	First Choice 31 December 2006	Wise House 31 December 2006	Mingrunfeng 31 December 2006	Sub-total	Pro-forma adjustment	Total Pro-forma adjustment	The Group after 100% acquisition of Mingrunfeng
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Audited	Audited	Audited		*(Note (a))*		Unaudited
CASH FLOW FROM OPERATING ACTIVITIES									
Profit/(loss) from operations	2,577	(20)	(22)	(38)	(2,199)	298			298
Adjustments for:									
Depreciation and amortisation of property, plant and equipment	6,654	–	–	–	7	6,661			6,661
Amortisation of prepaid land lease payments	147	–	–	–	–	147			147
Amortisation of intangible assets	190	–	–	–	–	190			190
Provision for slow moving inventories	804	–	–	–	–	804			804
Bad debts written-off	376	–	–	–	–	376			376
Write off of deposits received	(912)	–	–	–	–	(912)			(912)
Revaluation surplus on leasehold land and buildings	(312)	–	–	–	–	(312)			(312)
Write off of property, plant and equipment	1	–	–	–	–	1			1
Gain on disposal of property, plant and equipment	(9)	–	–	–	–	(9)			(9)
Gain on disposal of subsidiaries	327	–	–	–	–	327			327
Share of loss of a jointly controlled entity	(45)	–	–	–	–	(45)			(45)
Share-based compensation expenses									
– employee compensation expenses	4,614	–	–	–	–	4,614			4,614
– consultancy fee	205	–	–	–	–	205			205
Interest expenses	2,576	–	–	–	809	3,385			3,385
Interest income	(1,158)	–	–	–	(5)	(1,163)			(1,163)
Negative goodwill	–	–	–	–	–	–			–
Operating profit/(loss) before working capital changes	16,035	(20)	(22)	(38)	(1,388)	14,567			14,567
Increase in inventories	(3,422)	–	–	–	–	(3,422)			(3,422)
Decrease in trade and bills receivables	3,268	–	–	–	–	3,268			3,268
Decrease/(increase) in prepayment, deposits and other receivables	(247)	–	–	–	15	(232)			(232)
Increase in amount due from a jointly controlled entity	(1,097)	–	–	–	–	(1,097)			(1,097)
Increase in amount due from a director	–	–	–	–	(788)	(788)			(788)
Increase in trust receipt loans	1,798	–	–	–	–	1,798			1,798
Decrease in trade and bills payables	(3,226)	–	–	–	–	(3,226)			(3,226)
Increase in other payables and accruals	159	1	4	1	305	470			470
Decrease in amount due to a director	–	–	–	–	(191)	(191)			(191)
Cash generated from/(used in) operations	13,268	(19)	(18)	(37)	(2,047)	11,147			11,147
Interest paid	(2,561)	–	–	–	–	(2,561)			(2,561)
Interest paid in finance lease payments	(15)	–	–	–	–	(15)			(15)
Interest received	–	–	–	–	5	5			5
Income tax paid	(74)	–	–	–	–	(74)			(74)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**10,618**	**(19)**	**(18)**	**(37)**	**(2,042)**	**8,502**			**8,502**

	The Group 31 December 2006	Jumplex 31 December 2006	First Choice 31 December 2006	Wise House 31 December 2006	Mingrunfeng 31 December 2006	Sub-total	Pro-forma adjustment	Total Pro-forma adjustment	The Group after 100% acquisition of Mingrunfeng
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Audited	Audited	Audited		*(Note (a))*		Unaudited
CASH FLOW FROM INVESTING ACTIVITIES									
Payments to acquire property, plant and equipment	(1,184)	–	–	–	(11)	(1,195)			(1,195)
Payments to acquire the items of assets under development	–	–	–	–	–	–			–
Payments to acquire of a subsidiary	–	–	–	–	–	–			–
Proceeds from disposal of property, plant and equipment	34	–	–	–	–	34			34
Payments to acquire intangible assets	(2,614)	–	–	–	(18,300)	(20,914)			(20,914)
Capital contribution to a jointly controlled entity	(578)	–	–	–	–	(578)			(578)
Decrease in amount due from a related company	5,232	–	–	–	–	5,232			5,232
Decrease in amount due from shareholders	–	–	–	35	–	35			35
Deposit paid for acquisition of a company	(15,000)	–	–	–	–	(15,000)	15,000	15,000	–
Interest received	1,158	–	–	–	–	1,158			1,158
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	**(12,952)**	**–**	**–**	**35**	**(18,311)**	**(31,228)**			**(16,228)**
CASH FLOW FROM FINANCING ACTIVITIES									
Advances from a shareholder	–	–	–	–	–	–			–
Loan from a third party	–	–	–	–	–	–			–
Proceeds from open offer of shares issued	38,742	–	–	–	–	38,742			38,742
Payment in relation to the cost of open offer of shares issued	(1,498)	–	–	–	–	(1,498)			(1,498)
Increase in amount due to shareholders	–	19	101	–	–	120			120
New bank loans	26,522	–	–	–	–	26,522			26,522
Repayment of bank loans	(26,293)	–	–	–	–	(26,293)			(26,293)
New other loans	–	–	–	–	17,500	17,500			17,500
Repayment of other loans	–	–	–	–	(13,000)	(13,000)			(13,000)
Repayment of Capital element of finance lease payables	(96)	–	–	–	–	(96)			(96)
Capital contribution from minority interests	1,260	–	–	–	–	1,260			1,260
Loan from a director	–	–	–	–	1,000	1,000			1,000
Deposit received	–	–	–	–	15,000	15,000	(15,000)	(15,000)	–
NET CASH INFLOW FROM FINANCING ACTIVITIES	**38,637**	**19**	**101**	**–**	**20,500**	**59,257**			**44,257**
Net increase/(decrease) in cash and cash equivalents	36,303	–	83	(2)	147	36,531			36,531
Cash and cash equivalents at beginning of the year/period	48,034	–	–	2	311	48,347			48,347
Effect of foreign exchange rate changes, on cash held	887	–	–	–	–	887			887
Cash and cash equivalents at end of the year/period	**85,224**	**–**	**83**	**–**	**458**	**85,765**	**–**	**–**	**85,765**
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS									
Cash and bank balance	**85,224**	**–**	**83**	**–**	**458**	**85,765**	**–**	**–**	**85,765**

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) The adjustment reflects the RMB20 million (equivalent to HK$20 million) contributed by Bright Asset to Mingrunfeng pursuant to the Capital Contribution Agreement in return for an enlarged 51% equity interest in the paid up capital of Mingrunfeng. The deposit of RMB15 million received by Mingrunfeng in June 2006 was deemed to have been paid by the Group as at 31 December 2006.

(b) The adjustment reflects the consideration for the Acquisition of the entire issued share capital of Jumplex by Bright Asset pursuant to the Jumplex Acquisition Agreement which is to be satisfied by the issue and allotment of 44,350,175 ordinary shares of HK$0.02 each of the Company (the "Consideration Shares") an issue price of HK$0.33 per Consideration Share. The fair value of the 44,350,175 new Consideration Shares was approximately HK$27,874,000 as at the date of completion on 29 May 2007.

(c) The adjustment reflects the consideration for the Acquisition of the entire issued share capital of First Choice by Bright Asset pursuant to the First Choice Acquisition Agreement which is to be satisfied by the issue and allotment of 59,103,859 Consideration Shares at an issue price of HK$0.33 per Consideration Share. The fair value of the 59,103,859 new Consideration Shares was approximately HK$37,147,000 as at the date of completion on 29 May 2007.

(d) The adjustment reflects the consideration for the Acquisition of the entire issued share capital of Wise House by Bright Asset pursuant to the Wise House Acquisition Agreement which is to be satisfied by the issue and allotment of 140,338,246 Consideration Shares at an issue price of HK$0.33 per Consideration Share. The fair value of the 140,338,246 new Consideration Shares was approximately HK$88,202,000 as at the date of completion on 29 May 2007.

(e) The adjustment reflects the consideration for the Acquisition of a 16% equity interest in the enlarged share capital of Mingrunfeng upon completion of the Capital Contribution Agreement from Mr. Yang Ruzhi pursuant to the 2nd Acquisition Agreement which is to be satisfied by the issue and allotment of 118,207,720 Consideration Shares at an issue price of HK$0.33 per Consideration Share. The fair value of the 118,207,720 new Consideration Shares was approximately HK$141,861,000 as at the date of completion on 29 May 2007.

(f) The adjustment reflects the accrual for the legal, audit and other professional fees of approximately HK2,000,000 directly related to the Acquisition.

(g) The adjustment reflects the elimination of the Group's investment in Jumplex, First Choice, Wise House and Mingrunfeng and the excess of the aggregate purchase considerations over the net assets acquired from Jumplex, First Choice, Wise House and Minrunfeng, after adjusting for the shareholder's loan in Jumplex and First Choice acquired by Bright Asset pursuant to the Jumplex Acquisition Agreement and the First Choice Agreement, respectively.

The reconciliation of on share capital and reserves is as follows:

	Share Capital	**Reserves**
	HK$'000	*HK$'000*
Jumplex	–	(20)
First Choice	–	(55)
Wise House	281	(53)
Mingrunfeng	500	(2,540)
Balance as at 31 December 2006	781	(2,668)
Capital contribution by Bright Asset to Mingrunfeng as if it had been completed *(note a)*	520	19,480
	1,301	16,812

The reconciliation of the goodwill arising from the Acquisition is as follows:

	HK$'000
Total fair value of consideration *(notes (b)* to *(e))*	295,084
Add/(Less): Net (assets)/liabilities acquired in:	
Jumplex	62
First Choice	3
Wise House	(34)
Mingrunfeng	2,040
	297,155
Add: Professional fee directly related to the Proposed Acquisitions *(note f)*	2,000
	299,155

The following is the text of a report, prepared for the purpose of incorporation in this circular, from Cachet Certified Public Accountants Limited in respect of the unaudited pro forma financial information of the enlarged group as set out in this appendix:

CACHET

Cachet Certified Public Accountants Limited

德揚會計師事務所有限公司

31 January 2008

The Directors
Kiu Hung International Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Kiu Hung International Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Lucky Dragon Resources Limited ("Lucky Dragon") and its subsidiary, Tongliao City Heng Yuan Mining Company Limited ("Heng Yuan") (Lucky Dragon together with Heng Yuan hereinafter referred to as the "Lucky Dragon Group" and the Group together with the Lucky Dragon Group hereinafter referred to as the "Enlarged Group"), which has been prepared by the Directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition (the "Acquisition") of the entire issued share capital of Lucky Dragon by Grown Gain Investments Limited ("Grown Gain"), a wholly owned subsidiary of the Company pursuant to a conditional sale and purchase agreement dated 16 August 2007 entered into between Grown Gain and Gold Dynasty Investments Limited ("Gold Dynasty"), the original sole shareholder of Lucky Dragon, might have affected the financial information presented, for inclusion as Appendix II to the circular of Company dated 31 January, 2008 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out in Appendix IV to the Circular.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS OF THE COMPANY AND REPORTING ACCOUNTANTS

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the Directors of Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance of indication that any event will take place in the future and may not be indicative of:

– the financial position of the Enlarged Group as at 31 December 2006 or at any future date; or

– the results or the cash flows of the Enlarged Group for the year ended 31 December 2006 or for any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
Cachet Certified Public Accountants Limited
Certified Public Accountants
Hong Kong, 31 January 2008

Chan Chi Yuen
Practising Certificate Number P02671

1. BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following Unaudited Pro forma Financial Information of the Enlarged Group has been prepared to illustrate the effect of the proposed acquisition (the "Acquisition") of the entire issued share capital of Lucky Dragon by Grown Gain Investments Limited ("Grown Gain"), a wholly owned subsidiary of the Company, pursuant to a conditional sale and purchase agreement (the "Acquisition Agreement") dated 16 August 2007 entered into between Grown Gain and Gold Dynasty Investments Limited ("Gold Dynasty"), the original sole shareholder of Lucky Dragon,.

The unaudited pro forma income statement and cash flow statement of the Enlarged Group are prepared based on the audited income statement and cash flow statement of the Group for the year ended 31 December 2006 as extracted from the annual report of the Company and the audited income statements and cash flow statements of Lucky Dragon and Heng Yuan for the year ended 31 December 2006 as extracted from the accountants' report as set out in Appendix II to this circular (the "Circular"), and other financial information included elsewhere in the Circular, as if the Acquisition has been completed on 1 January 2006.

The unaudited pro forma balance sheet of the Enlarged Group is prepared based on the audited balance sheet of the Group as at 31 December 2006 as extracted from the annual report of the Company and the audited balance sheets of Lucky Dragon and Heng Yuan as at 31 July 2007 as extracted from the accountants' report as set out in Appendix II to the Circular and other financial information included elsewhere in the Circular, as if the Acquisition has been completed on the respective balance sheet dates.

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition. It is prepared for illustrative purpose only and it does not purport to represent what the results, cash flows or financial position of the Enlarged Group as on the completion of the Acquisition and the Mingrunfeng Acquisition.

2. UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED GROUP (ACQUISITION OF LUCKY DRAGON AND HENG YUAN)

	The Group 31 December 2006 *HK$'000* Audited	Lucky Dragon* 31 December 2006 *HK$'000* Audited	Heng Yuan 31 December 2006 *HK$'000* Audited	Sub-total *HK$'000*	Pro-forma adjustment *HK$'000*	the Enlarged@ Group 31 December 2006 *HK$'000* Unaudited
Revenue	96,578	–	–	96,578		96,578
Cost of sales	(61,046)	–	–	(61,046)		(61,046)
Gross profit	35,532	–	–	35,532		35,532
Other income and gains	5,297	–	–	5,297		5,297
Selling and distribution expenses	(9,197)	–	–	(9,197)		(9,197)
General and administrative expenses	(25,500)	–	(361)	(25,861)		(25,861)
Other operating expenses	(1,024)	–	–	(1,024)		(1,024)
Share of profit of a jointly controlled entity	45	–	–	45		45
Finance expenses	(2,576)	–	–	(2,576)		(2,576)
Profit/(loss) before taxation	2,577	–	(361)	2,216	–	2,216
Tax charges	(1,437)	–	–	(1,437)		(1,437)
Profit for the year/period	1,140	–	(361)	779	–	779
Proposed final dividend	299	–	–	299		299

* *No audited financial information of Lucky Dragon for the year ended 31 December 2006, since it incorporated on 30 April 2007.*

@ *The un-audited pro-forma of the enlarged group in respect of acquisition of Lucky Dragon and Heng Yuan was excluding the acquisition of Mingrunfeng, details please refer to Appendix III in this circular.*

3. UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP (ACQUISITION OF LUCKY DRAGON AND HENG YUAN)

	The Group 31 December 2006	Lucky Dragon 31 July 2007	Heng Yuan 31 July 2007	Sub-total	Pro-forma adjustment				Total Pro-forma adjustment	the Enlarged Group @ 31 December 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Audited		*(Note (a))*	*(Note (b))*	*(Note (c))*	*(Note (d))*		Unaudited
Non-current assets										
Property, plant and equipment	63,877	–	–	63,877					–	63,877
Prepaid land lease payments	6,213	–	–	6,213					–	6,213
Investment property	400	–	–	400					–	400
Interest in a subsidiary	–	–	–	–	768,839	(768,839)			–	–
Interest in a jointly controlled entity	623	–	–	623					–	623
Interest in an associate	–									
Intangible assets – Mining rights	–	–	21,401	21,401					–	21,401
Intangible assets – Exploration rights/exploration and evaluation assets	2,424	–	3,090	5,514					–	5,514
Other intangible assets	–	–	–	–					–	–
Deposit for acquisition of a company	15,000	–	–	15,000					–	15,000
Deferred tax assets	551	–	–	551					–	551
Goodwill	–	–	–	–		726,614	2,000		728,614	728,614
	89,088	–	24,491	113,579	768,839	(42,225)	2,000	–	728,614	842,193
Current assets										
Inventories	10,227	–	–	10,227					–	10,227
Trade and bill receivables	9,105	–	–	9,105					–	9,105
Prepayment, deposits and other receivables	1,716	–	93	1,809					–	1,809
Amount due from a jointly controlled entity	1,097	–	–	1,097					–	1,097
Amount due from related company	2,900	–	–	2,900					–	2,900
Amount due from a director	–	–	–	–					–	–
Amount due from shareholders	–	–	–	–					–	–
Loan to a third party	–	–	–	–					–	–
Financial assets at fair value through profit or loss	286	–	–	286					–	286
Cash & cash equivalents	85,224	20,730	1	105,955	(160,000)			54,045	(105,955)	–
Tax recoverable	153	–	–	153					–	153
	110,708	20,730	94	131,532	(160,000)	–	–	54,045	(105,955)	25,577

	The Group 31 December 2006	Lucky Dragon 31 July 2007	Heng Yuan 31 July 2007	Sub-total	Pro-forma adjustment				Total Pro-forma adjustment	the Enlarged Group @ 31 December 2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	Audited	Audited	Audited		*(Note (a))*	*(Note (b))*	*(Note (c))*	*(Note (d))*		Unaudited
Current liabilities										
Due to a shareholder	–	20,760	–	20,760		(20,760)			(20,760)	–
Loan from a third party	–	–	3,090	3,090					–	3,090
Trade and bills payables	7,632	–	–	7,632					–	7,632
Other payables and accruals	4,902	–	–	4,902	–		2,000		2,000	6,902
Provision for tax	287	–	–	287					–	287
Deposit received	–	–	–	–					–	–
Bank overdraft	–	–	–	–				54,045	54,045	54,045
Bank and trust receipt loans	–	–	–	–					–	–
Other loans	33,066	–	–	33,066					–	33,066
Amount due to a shareholder	–	–	–	–						
Loan from a director	–	–	–	–						
Finance lease payables	–	–	–	–					–	–
	45,887	20,760	3,090	69,737	–	(20,760)	2,000	54,045	35,285	105,022
Net current assets/(liabilities)	64,821	(30)	(2,996)	61,795	(160,000)	20,760	(2,000)	–	(141,240)	(79,445)
Total assets less current liabilities	153,909	(30)	21,495	175,374	608,839	(21,465)	–	–	587,374	762,748
Non-current liabilities										
Convertible bonds	–	–	–	–	(232,125)				(232,125)	(232,125)
Bank loans	(1,766)	–	–	(1,766)					–	(1,766)
Deferred tax liabilities	(3,829)	–	–	(3,829)					–	(3,829)
	(5,595)	–	–	(5,595)	(232,125)	–	–	–	(232,125)	(237,720)
Net assets/(liabilities)	148,314	(30)	21,495	169,779	376,714	(21,465)	–	–	355,249	525,028
Equity										
Equity attributable to Company's equity holders										
Share Capital	59,773	–	515	60,288	12,000	(515)			11,485	71,773
Reserves	86,945	(30)	20,980	107,895	338,016	(20,950)			317,066	424,961
Equity component of convertible note	–	–	–	–	26,698	–			26,698	26,698
Proposed final dividend	299	–	–	299	–	–			–	299
	147,017	(30)	21,495	168,482	376,714	(21,465)	–	–	355,249	523,731
Minority interests	1,297	–	–	1,297	–	–	–	–	–	1,297
Total equity/(deficiency)	148,314	(30)	21,495	169,779	376,714	(21,465)	–	–	355,249	525,028

@ *The un-audited pro-forma of the enlarged group in respect of acquisition of Lucky Dragon and Heng Yuan was excluding the acquisition of Mingrunfeng, details please refer to Appendix III in this circular.*

4. UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT OF THE ENLARGED GROUP (ACQUISITION OF LUCKY DRAGON AND HENG YUAN)

	The Group 31 December 2006 *HK$'000* Audited	Lucky Dragon* 31 December 2006 *HK$'000* Audited	Heng Yuan 31 December 2006 *HK$'000* Audited	Sub-total *HK$'000*	Pro-forma adjustment *HK$'000* *(note (a))*	Total Pro-forma adjustment *HK$'000*	the Enlarged @ Group 31 December 2006 *HK$'000* Unaudited
CASH FLOW FROM OPERATING ACTIVITIES							
Profit/(loss) from operations	2,577	–	(361)	2,216			2,216
Adjustments for:							
Depreciation and amortisation of property, plant and equipment	6,654	–	–	6,654			6,654
Amortisation of prepaid land lease payments	147	–	–	147			147
Amortisation of intangible assets	190	–	–	190			190
Provision for slow moving inventories	804	–	–	804			804
Bad debts written-off	376	–	–	376			376
Write off of deposits received	(912)	–	–	(912)			(912)
Revaluation surplus on leasehold land and buildings	(312)	–	–	(312)			(312)
Write off of property, plant and equipment	1	–	–	1			1
Gain on disposal of property, plant and equipment	(9)	–	–	(9)			(9)
Gain on disposal of subsidiaries	327	–	–	327			327
Share of loss of a jointly controlled entity	(45)	–	–	(45)			(45)
Share-based compensation expenses							
– employee compensation expenses	4,614	–	–	4,614			4,614
– consultancy fee	205	–	–	205			205
Interest expenses	2,576	–	–	2,576			2,576
Interest income	(1,158)	–	–	(1,158)			(1,158)
Negative goodwill	–	–	–	–			–

	The Group 31 December 2006 *HK$'000* Audited	Lucky Dragon* 31 December 2006 *HK$'000* Audited	Heng Yuan 31 December 2006 *HK$'000* Audited	Sub-total *HK$'000*	Pro-forma adjustment *HK$'000* *(note (a))*	Total Pro-forma adjustment *HK$'000*	the Enlarged @ Group 31 December 2006 *HK$'000* Unaudited
Operating profit/(loss) before working capital changes	16,035	–	(361)	15,674			15,674
Increase in inventories	(3,422)	–	–	(3,422)			(3,422)
Decrease in trade and bills receivables	3,268	–	–	3,268			3,268
Increase in prepayment, deposits and other receivables	(247)	–	(33)	(280)			(280)
Increase in amount due from a jointly controlled entity	(1,097)	–	–	(1,097)			(1,097)
Increase in amount due from a director	–	–	–	–			–
Increase in trust receipt loans	1,798	–	–	1,798			1,798
Decrease in trade and bills payables	(3,226)	–	–	(3,226)			(3,226)
Increase in other payables and accruals	159	–	–	159			159
Decrease in amount due to a director	–	–	–	–			–
Cash generated from/(used in) operations	13,268	–	(394)	12,874			12,874
Interest paid	(2,561)	–	–	(2,561)			(2,561)
Interest paid in finance lease payments	(15)	–	–	(15)			(15)
Interest received	–	–	–	–			–
Income tax paid	(74)	–	–	(74)			(74)
NET CASH INFLOW/ (OUTFLOW) FROM OPERATING ACTIVITIES	**10,618**	**–**	**(394)**	**10,224**			**10,224**
CASH FLOW FROM INVESTING ACTIVITIES							
Payments to acquire property, plant and equipment	(1,184)	–	(2,079)	(3,263)			(3,263)
Payments to acquire the items of assets under development	–	–	–	–			–
Payments to acquire of a subsidiary	–	–	–	–	(160,000)	(160,000)	(160,000)
Proceeds from disposal of property, plant and equipment	34	–	–	34			34
Payments to acquire intangible assets	(2,614)	–	–	(2,614)			(2,614)
Capital contribution to a jointly controlled entity	(578)	–	–	(578)			(578)
Decrease in amount due from a related company	5,232	–	–	5,232			5,232
Decrease in amount due from shareholders	–	–	–	–			–
Deposit paid for acquisition of a company	(15,000)	–	–	(15,000)			(15,000)
Interest received	1,158	–	–	1,158			1,158
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(12,952)**	**–**	**(2,079)**	**(15,031)**			**(175,031)**

	The Group 31 December 2006 *HK$'000* Audited	Lucky Dragon* 31 December 2006 *HK$'000* Audited	Heng Yuan 31 December 2006 *HK$'000* Audited	Sub-total *HK$'000*	Pro-forma adjustment *HK$'000* *(note (a))*	Total Pro-forma adjustment *HK$'000*	the Enlarged @ Group 31 December 2006 *HK$'000* Unaudited
CASH FLOW FROM FINANCING ACTIVITIES							
Advances from a shareholder	–	–	2,470	2,470			2,470
Loan from a third party	–	–	–	–			–
Proceeds from open offer of shares issued	38,742	–	–	38,742			38,742
Payment in relation to the cost of open offer of shares issued	(1,498)	–	–	(1,498)			(1,498)
Increase in amount due to shareholders	–	–	–	–			–
New bank loans	26,522	–	–	26,522			26,522
Repayment of bank loans	(26,293)	–	–	(26,293)			(26,293)
New other loans	–	–	–	–			–
Repayment of other loans	–	–	–	–			–
Repayment of Capital element of finance lease payables	(96)	–	–	(96)			(96)
Capital contribution from minority interests	1,260	–	–	1,260			1,260
Loan from a director	–	–	–	–			–
Deposit received	–	–	–	–			–
NET CASH INFLOW FROM FINANCING ACTIVITIES	38,637	–	2,470	41,107			41,107
Net increase/(decrease) in cash and cash equivalents	36,303	–	(3)	36,300			(123,700)
Cash and cash equivalents at beginning of the year/period	48,034	–	4	48,038			48,038
Effect of foreign exchange rate changes, on cash held	887	–	–	887			887
Cash and cash equivalents at end of the year/period	85,224	–	1	85,225	(160,000)	(160,000)	(74,775)
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS							
Cash and bank balance	85,224	–	1	85,225	(160,000)	(160,000)	(74,775)

* *No audited financial information of Lucky Dragon for the year ended 31 December 2006, since it incorporated on 30 April 2007.*

@ *The un-audited pro-forma of the enlarged group in respect of acquisition of Lucky Dragon and Heng Yuan was excluding the acquisition of Mingrunfeng, details please refer to Appendix III in this circular.*

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(a) The aggregate purchase consideration, as adjusted, for the Acquisition is as follows:

	HK$'000
Total consideration per Acquisition Agreements	840,000
Adjustments per Acquisition Agreements:	
– Adjustment A[#]	3,476
– Adjustment B[##]	(1,563)
– Adjustment C[###]	(3,090)
Total adjusted purchases consideration	838,823

[#] *Adjustment A applies if the assessed reserve quantity of the Xi Meng Coal Mine is different than the agreed reserve quantity.*

[##] *Adjustment B represents the outstanding premium for exploration right payable by Heng Yuan to the relevant authorities of land and resources and any exploration costs payable by Heng Yuan to the PRC exploration company remains outstanding immediately before the Completion.*

[###] *Adjustment C applies if the total liabilities as shown in the unaudited financial statements of Heng Yuan at the date of completion (the "Completion Accounts") is greater than the total liabilities as shown in the unaudited financial statements of Heng Yuan as at 15 July 2007 (the "Management Accounts"). The amount of HK$3,090,000 deducted in the pro-forma financial statements represents the difference between the total liabilities as shown in the Management Accounts and as at 31 July 2007 (being the date on which the Acquisition is assumed to have been completed) of the Lucky Dragon Group setting off such amount on a dollar basis against the payment obligations of the Company under Convertible Notes.*

The adjusted total purchases consideration of approximately HK$838,823,000 has to be satisfied:

(i) as to approximately HK$160,000,000 paid by cash;

(ii) as to approximately HK$420,000,000 by the issue and allotment of 600,000,000 new consideration shares of the Company at an issue price of HK$0.70 per consideration share; and

(iii) the remaining of approximately HK$258,823,000 by the issue of convertible notes entitling the holder of the convertible notes to convert into a total of approximately 369,747,000 new shares of the Company at an conversion price of HK$0.70 per share.

The adjustment reflects the fair value of the aggregate consideration paid as follows:

	HK$'000
Paid and payable in cash	160,000
Fair value of the 600,000,000 new consideration shares issued	350,016
Fair value of the convertible notes issued-liability component	232,125
Fair value of the convertible notes issued-equity component	26,698
Total fair value of purchase consideration *(note b)*	768,839

(b) The adjustment reflects the elimination of the Group's investment in Lucky Dragon Group and the excess of the aggregate purchase considerations over the net assets of the Lucky Dragon Group acquired by the Group, and the recording of the goodwill in the balance sheet.

The reconciliation of the goodwill arising from the Acquisition is as follows:

	HK$'000
Total fair value of purchases consideration *(note a)*	768,839
Less: Total indebtedness of Lucky Dragon due to vendor taken up by Kiu Hung	(20,760)
	748,079
Less: Net assets acquired from the Lucky Dragon Group (i.e. Lucky Dragon and Heng Yuan)	(21,465)
	726,614
Add: Professional fees directly related to the Acquisition *(note c)*	2,000
Goodwill	728,614

(c) The adjustment reflects the accrual for the legal, audit and other professional fees of approximately HK2,000,000 (note b) directly related to the Acquisition.

(d) The adjustment reflects the re-classification of bank overdraft to current liabilities.

The following is the text of a report, prepared for the purpose of incorporation in this circular received from RHL Appraisal Limited, an independent professional valuer, in connection with its valuation as at 30 November 2007 of the fair value of the exploration rights of Xi Meng Coal Mine and the mining rights of Huanghuashan Coal Mine.

永利行評值顧問有限公司 | RHL Appraisal Ltd
Surveying Practices – Corporate Valuation and Property Consultancy
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31 January 2008

Kiu Hung International Holdings Limited
14/F., Yale Industrial Centre
61-63 Au Pui Wan Street
Fo Tan Shatin
Hong Kong

Dear Sirs,

In accordance with your instructions we have undertaken a valuation to determine the fair value of "**Exploration Rights of Xi Meng Coal Mine**" (the "**Explorations Rights**") and "**Mining Rights of Huanghuashan Coal Mine**" (the "**Mining Rights**"), which are owned by **Heng Yuan Mining Company Limited** (the "**Company**"), as at **30 November 2007** (the "**Valuation Date**").

Our valuation was carried out on a fair value basis. Fair value is defined as "the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction."

Based on the results of investigations and analyses outlined in the report, we are of the opinion that as at the Valuation Date the fair value the Exploration Rights and the Mining Rights is the following:

	Amount *(RMB)*
Exploration Rights of Xi Meng Coal Mine	2,638,911,000
Mining Rights of Huanghuashan Coal Mine	938,083,000
Total:	**RMB3,576,994,000**

The following pages outline the factors considered, methodology and assumptions employed in formulating our opinions and conclusions.

This report is issued subject to our limiting conditions as attached.

For and on behalf of
RHL Appraisal Ltd.
Simon Mak
Director
CFA

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Introduction

This report has been prepared in accordance with the instructions from **Kiu Hung International Holdings Limited** (the "**Client**") to estimate the fair value of the mining rights in relation to the Huanghuashan Coal Mine (黃花山煤礦) situated in the Tongliao City of Inner Mongolia (內蒙古通遼市) and 2) the exploration rights of the Xi Meng Coal Mine, the Bayanhushuo Coal Field (巴彥呼碩煤田) situated in Xilinguolemeng of Inner Mongolia (內蒙古錫林郭勒盟) of the People's Republic of China (hereinafter known as the "PRC") for the Client as at **30 November 2007** (the "**Valuation Date**"). This report outlines our latest findings and valuation conclusion.

Purpose of Valuation

The purpose of this valuation is to express an independent opinion on the values of the Exploration Rights and the Mining Rights as at the Valuation Date for sales and acquisitions reference.

Basis of Value

Our valuation is carried out on a fair value basis. Fair value is defined as "*the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction*".

Basis of Opinion

We have conducted our valuation in accordance with International Valuation Standards issued by International Valuation Standards Committee. The valuation procedure includes review of the financial and economic condition of the subject business, an assessment of key assumptions, estimates, and representations made by the management of the business. All matters essential to the proper understanding of the valuation are disclosed in the valuation report. Opinion of value included in the valuation report is impartial, free of self-interest, and without misleading.

The following factors also form a considerable part of our basis of opinion:

- Assumptions on the market and on the subject business that are considered to be fair and reasonable;
- Financial performance that shows a consistent trend of the operation of the subject company;
- Consideration and analysis on the micro- and macro-economic factors;
- Analysis on tactical planning, management standard and synergy of assets;
- Analytical review of the subject business; and
- Assessment on the leverage and liquidity of the asset.

We have planned and performed our valuation so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to express our opinion on the subject asset. We believe that our valuation provides a reasonable basis for our opinion.

Company Description

Kiu Hung International Holdings Limited (the "**Client**") is a company incorporated in the Cayman Islands and the issued shares of which are listed on the Stock Exchange.

On 16 August 2007, Growth Gain Investments Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Client and incorporated in the British Virgin Island with limited liability, and Gold Dynasty Investments Limited (the "**Vendor**"), a company incorporated in the British Virgin Islands with limited liability, being the vendor under the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to acquire and the Vendor has conditionally agreed to dispose of the Sale Share, being the entire issued share capital of Lucky Dragon and the Indebtedness at a total consideration of HK$840 million (subject to Adjustments).

The Heng Yuan Mining Company Limited is wholly-owned foreign enterprise established in the PRC on 11 January 2005. Heng Yuan Mining Company, principally engaged in the sale of mine products other than noble metal and iron ore, owns 1) the mining rights and other relevant operation facilities and properties in relation to the Huanghuashan Coal Mine situated in Tongliao City of Inner Mongolia and 2) the exploration rights of the Xi Meng Coal Mine situated in Xilinguolemeng of Inner Mongolia. The operating period of the mining rights in the Huanghuashan Coal Mine is from May 2005 to May 2010. The operating period of the exploration rights in the Xi Meng Coal Mine is from July 2005 to July 2008. While the mining rights in the Huanghuashan Coal Mine are subject to an extension of 5 years, the exploration rights in the Xi Meng Coal Mine are subject to an extension of 2 years.

Background Information

According to the information from the Energy Information Administration (EIA), from 2004 to 2030 world coal consumption increases by 74%, from 2005 to 2030 international coal trade increases by 44%, and coal's share of world energy consumption increases from 26% in 2004 to 28% in 2030. Coal production in China from 2004 to 2030, driven by growing coal consumption, is projected to increase by 50.4 quadrillion Btu. The demand for coal is assumed to be continuously met by domestic production.

In the world coal consumption from 2004 to 2030, China and India together account for 72 % of the projected increase. China and India are projected to have strong economic growth, averaging 6.5% per year and 5.7% per year, respectively. Much of the increase in their demand for energy is expected to be met by coal, particularly in the industrial and electricity sectors.

China's use of coal in the electricity sector is projected to increase from 22.7 quadrillion Btu in 2004 to 55.9 quadrillion Btu in 2030, at an average rate of 3.5% per year. China had an estimated 271 gigawatts of coal-fired capacity in operation at the end of 2004. An additional 497 gigawatts of coal-fired capacity (net of retirements) is projected to be brought on line in China by 2030 in order to meet the demand for electricity that is expected to accompany its rapid economic growth. This requires large financial investments in new coal-fired power plants and associated transmission and distribution system.

Approximately 45% of China's coal use in 2004 was in the non-electricity sectors, primarily in the industrial sector. Coal demand in China's non-electricity sectors is expected to more than double, increasing by 20.9 quadrillion Btu. Due to China's limited reserves of oil and natural, coal remains the primary source of energy in China's industrial sector.

Approach and Methodology

In carrying out this valuation exercise for acquisition advisory purposes, we have considered the market approach to be the most relevant approach to evaluate the value of the Exploration Rights and the Mining Rights. The market approach provides indication of value by comparing the subject asset to public tradable assets that have been traded in the market.

Sources of Information

In conducting our valuation of the Exploration Rights and the Mining Rights, we have considered, reviewed and relied upon the following key information provided by the instructing party and the Client.

- Overview and operating statistics of the Exploration Rights and the Mining Rights
- Related circulars of the Client
- The technical report issued by SRK Consulting
- Bloomberg Database and other reliable sources of market data
- Research/Analysis reports
- Annual production rate and turnover of the coal mines
- Legal Opinion from 福建創元律師事務所
- Articles from 國土資源部諮詢研究中心
- Technical Opinions of "Coal Expert A" and "Coal Expert B", as set out in the Definitions of this circular

In arriving at our opinion, we have assumed and relied upon the accuracy and completeness of the information reviewed by us for the purpose of this exercise. In addition, we have relied upon the statements, information, opinion and representations provided to us by the Client.

We also conducted research using various sources including government statistical releases and other publications to verify the reasonableness and fairness of information provided and we believe that the information is reasonable and reliable.

Our opinion is based upon economic, market, financial and other conditions as they exist and can be evaluated on the date of this report and we assume no responsibility to update or revise our opinion based on events or circumstances occurring after the date of this report. In reaching our opinion, we have made assumptions with respect to such economic, market, financial and other conditions and other matters, many of which are beyond our control or the control of any party involved in this valuation exercise.

Validation of Assumptions

Assumptions considered having significant sensitivity effects in this valuation have been evaluated and validated in arriving at our assessed values.

General Assumptions

We have assumed that there will be no material change in the existing political, legal, technological, fiscal or economic conditions which might adversely affect the economy in general and the business of the Client.

Some of the parameters used for determining the fair value of the Exploration Rights and the Mining Rights are as follows:

Planned Annual Production of Xi Meng Coal Mine (tons)[1]	3,000,000
Planned Annual Production of Huanghuashan Coal Mine (tons)[1]	600,000
Estimated Coal Price of Xi Meng Coal Mine, per ton (as per the Technical Report)[2]	RMB190
Estimated Coal Price of Huanghuashan Coal Mine, per ton (as per the Technical Report)[3]	RMB255
Estimated Time for Production Capacity, Xi Meng Coal Mine[4]	By end of 2011
Estimated Time for Production Capacity, Huanghuashan Coal Mine[5]	By end of 2009
Estimated Capital Expenditure, Xi Meng Coal Mine[6]	RMB520,000,000
Estimated Capital Expenditure, Huanghuashan Coal Mine[7]	RMB72,000,000
Comparable Companies	China Shenhua Energy Company Limited Stock Code: 1088.hk Equity Yanzhou Coal Mining Company Limited Stock Code: 1171.hk Equity China Coal Energy Company Limited Stock Code: 1898.hk Equity

Levered Beta of China Shenhua Energy Company	1.3490
Total Debt/Equity	84.39%
Effective Tax Rate	20.99%
Unlevered Beta of China Shenhua Energy Company	0.8094
Levered Beta of Yanzhou Coal Mining Company	1.5520
Total Debt/Equity	2.85%
Effective Tax Rate	36.35%
Unlevered Beta of Yanzhou Coal Mining Company	1.5243
Levered Beta of China Coal Energy Company Limited	1.5250
Total Debt/Equity	50.89%
Effective Tax Rate	28.38%
Unlevered Beta of China Coal Energy Company Limited	11.176
Comparable Companies' Unlevered Beta as of 30 November 2007[8]	1.1504
Cost of Equity, $E(R_i)$[9]	11.17%
Expected Return on Market, $E(R_m)$[10]	10.13%
Risk Free Rate, R_f[11]	3.196%
Private Company Discount[12]	30%

"1" *The planned full annual production capacity of the coal mine is determined by the Coal Experts in accordance with the capital expenditures planned to be incurred for the coal mines.*

"2" *The estimated market coal price of Xi Meng Coal Mine is extracted from the Xi Meng Coal Mine technical report.*

"3" *The estimated market coal price of Huanghuashan Coal Mine is extracted from the Huanghuashan Coal Mine technical report.*

"4" *The estimated time required for the Xi Meng Coal Mine for reaching full production capacity is estimated by the Coal Experts in accordance with the time required for the construction of the Xi Meng Coal Mine (i.e. approximately 24 months after Completion) and the time required for the Xi Meng Coal Mine for reaching full production capacity based on their experience and expertise in the coal mining industry.*

"5" *The estimated time required for the Huanghuashan Coal Mine for reaching full production capacity is estimated by the Coal Experts in accordance with the time required for the expansion of the production capacity of the Huanghuashan Coal Mine (i.e. approximately 3 months after Completion) and the time required for the Huanghuashan Coal Mine for reaching full production capacity based on their experience and expertise in the coal mining industry.*

"6" *The estimated capital expenditure of Xi Meng Coal Mine is estimated by two coal experts ("Coal Expert A" and "Coal Expert B") of the Client based on the present market conditions.*

"7" *The estimated capital expenditure of Huanghuashan Coal Mine is estimated by two coal experts ("Coal Expert A" and "Coal Expert B") of the Client based on the present market conditions.*

"8" *The beta of comparable companies has taken into consideration the debt/equity structures of comparable companies by averaging the unlevered betas. Unlevered beta is calculated as of the following: Levered Beta = Unlevered Beta 1 + (1 - effective tax rate) x (debt/equity ratio). The levered Beta, effective tax rate and debt/equity ratios of each comparable company are extracted from Bloomberg.*

"9" Cost of Equity was determined by the Capital Asset Pricing Model (CAPM): $E(R_i) = R_f + beta * (E(R_m) - R_f$, where beta was the levered beta (1.1504).

"10" The expected market return represents the historical average annual market return of the Heng Sang Index from 1987 to 2007 as extracted from Bloomberg.

"11" Risk free rate represents the yield rate of the 10-year Hong Kong Exchange Fund Note as at the valuation date.

"12" The private company discount is based on a research paper by Aswath Damodaran, Professor of Finance at the Stern School of Business at New York University.

The capital expenditures of the coal mines are estimated by two coal experts ("Coal Expert A" and "Coal Expert B") of the Client based on the present market conditions. The directors of the Client are of the opinion that such capital expenditures as estimated by the two coal experts are fair and reasonable as the coal experts have in-depth experience and knowledge for the coal mining industry.

The coal experts, after taking into account the expansion of the annual production capacity of the Huanghuashan Coal Mine from 300,000 tons to 600,000 tons and the construction of coal washing facilities for the Huanghuashan Coal Mine, estimated that the capital expenditure of the Huanghuashan Coal Mine will be approximately RMB72 million. The coal experts, after taking into account the works and infrastructures required for the construction of an underground coal mine with annual production capacity of 3 million tons, which will include, among others, the construction of the mining area, the coal mining and transportation tunnels, the purchases of machinery and equipment, the ventilation and drainage systems, the administration office and storage area, estimated that the capital expenditure of the Xi Meng Coal Mine will be approximately RMB520 million.

The capital expenditures of the Huanghuashan Coal Mine the Xi Meng Coal Mine are expected to be incurred in 2008. Such capital expenditures are discounted to the valuation date (i.e. 30 November 2007) by using the discount rate and then deducted from the implied enterprise values of the coal mines which are calculated based on the "enterprise value to sales" multiples. Accordingly, the value of the coal mines will be lower if the capital expenditures expected to be incurred by the coal mines were higher.

In order to determine the value of the exploration rights of the Xi Meng Coal Mine and the mining rights of Huanghuashan Coal Mine, we have determined the "enterprise value to sales" multiples of comparable companies and then applied those price multiples to the related data of Xi Meng Coal Mine and Huanghuashan Coal Mine provided by the Client. Enterprise value is calculated as market cap plus debt, minority interest and preferred shares, minus total cash and cash equivalents. China Shenhua Energy Co. Ltd. (#1088), Yanzhou Coal Mining Co. Ltd. (#1171) and China Coal Energy Co.

Ltd. (#1898) are chosen as comparable companies as they are the active China coal trading/mining public companies listed in Hong Kong. The enterprise value to sales multiples are as follows:

Company Name	**EV to Sales[13]**
China Shenhua Energy Co. Ltd	18.5880
Yanzhou Coal Mining Co. Ltd	6.3702
China Coal Energy Co. Ltd	9.3878
Mean	**11.4487**

"13" The "enterprise value to sales" multiples are arrived at by dividing the enterprise value as at 30 November 2007 (equal to market capitalization + preferred equity + minority interest + short-term and long-term debt - cash and cash equivalents) by the sales of each company. The enterprise value and sales figures are extracted from Bloomberg.

Based on the information provided by the Client, the projected sales of Xi Meng Coal Mine and Huanghuashan Coal Mine are RMB570 and RMB153 millions for 4.0877 years and 2.0877 years from the Valuation Date, respectively. The "enterprise value to sales" multiple that we adopted is 11.4487, as listed above. The calculated value based on the "enterprise value to sales" multiple would need to be discounted by the cost of equity, to the Valuation Date as the sales will be realized by the end of 2011 and 2009 for the Xi Meng Coal Mine and Huanghuashan Coal Mine, respectively. In order to determine the value of the Xi Meng Coal Mine and Huanghuashan Coal Mine as at 30 November 2007, the implied enterprise values obtained above and the estimated capital expenditures for the coal mines are discounted to the valuation date (i.e. 30 November 2007). Eventually, the values of the Xi Meng Coal Mine and Huanghuashan Coal Mine as at 30 November 2007 are obtained by deducting the discounted implied enterprise values by the discounted estimated capital expenditures.

The value of the exploration rights of the Xi Meng Coal Mine and mining license of the Huanghuashan Coal Mine, which have considered the cost of equity and private company discount factors, have been determined to be RMB2,638,911,000 and RMB938,083,000, respectively as of the Valuation Date.

Valuation Comments

As part of our analysis, we have reviewed financial and business information with such financial information, project documentation and other pertinent data concerning the Exploration Rights and Mining Rights as has been made available to us. Such information has been provided by management. We have assumed the accuracy of, and have relied on, such information to a considerable extent in arriving at our opinion of value.

We confirm that we have made relevant searches and enquiries and obtained such further information as is considered necessary for the purposes of this valuation exercise.

We would like to draw your attention to the fact that we have not undertaken detailed investigation and survey and are not therefore able to confirm that the production lines and the operating facilities are free from defects.

The conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and consideration of such matters are regarded by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Client, and RHL Appraisal Limited.

Risk Factors

The following factors may affect the result of this valuation.

The renewal of the mining rights of the Huanghuashan Coal Mine (expires in May 2010) is subject to the approval of the relevant government authorities.

The renewal of the exploration rights of the Xi Meng Coal Mine (expires in July 2008) is subject to the approval of the relevant government authorities.

The mining activities in the Xi Meng Coal Mine are subject to the obtaining of the mining rights of the Xi Meng Coal Mine from the relevant government authorities.

Change in exchange rates

According to the Client, China is the major market of the coal business. If there is any unfavorable change in the exchange rate, the value of the Mining Rights may be adversely affected.

Ability to identify and respond to constantly changing technology and consumer demands

Customer preferences change based on current technology and by season. The mining business is susceptible to changing technology and fluctuations in client demands. If unsuccessfully identified, forecasted or responded to by the Company, could lead to lower sales, excess inventories and higher markdowns. It could have a material adverse effect on the Company's results of operations and financial condition.

Economic considerations

The price of coal and the profit margin will depend on market supply and demand forces in the domestic and international markets. The revenue of the Coal Mine is subject to the cyclical nature of the coal market (domestically and internationally) which is affected by numerous factors beyond the Company's control.

Political and social considerations

The PRC economy has experienced significant growth in the past decade. Most sectors, including the domestic and overseas trades, have been benefited by the strong economic growth. Although the prevailing trend of economic development is expected to continue, any changes in political, economic and social conditions, laws, regulations and policies in the PRC may have an adverse effect on the business of the mining business.

Use of alternative energies

Due to the environmental protection and supply-and-demand reasons, the use of alternative energies (such as wind, solar, water, hydrogen, and ethanol, etc) has becoming more common than ever. These alternative energies may have an impact on the demand on coal as the primarily source of energy in the future.

Opinion of Value

Based on the results of investigations and analyses outlined in the report, we are of the opinion that as at the Valuation Date the fair value the Exploration Rights and the Mining Rights is the following:

	Amount *(RMB)*
Exploration Rights of Xi Meng Coal Mine	2,638,911,000
Mining Rights of Huanghuashan Coal Mine	938,083,000
Total:	**RMB3,576,994,000**

For and on behalf of
RHL Appraisal Ltd.
Simon Mak
Director
CFA

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this circular received from Castores Magi (Hong Kong) Limited, an independent valuer, in connection with its valuation as at 30 November 2007 of the properties held by the Enlarged Group.

嘉漫(香港)有限公司
CASTORES MAGI (HONG KONG) LIMITED
REGISTERED PROFESSIONAL SURVEYORS
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES MAGI

Unit B, 23rd Floor
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

31 January 2008

The Directors
Kiu Hung International Holdings Limited
14th Floor
Yale Industrial Centre
61-63 Au Pui Wan Street
Fo Tan, Shatin
New Territories
Hong Kong

Dear Sirs,

In accordance with your instruction to value the properties in which Kiu Hung International Holdings Limited (the "Company") and its subsidiaries (together the "Group") have interests and to be acquired by the Company, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the relevant properties of the enlarged group as at 30 November 2007 ("date of valuation").

Our valuations of the properties in Groups I, II and IV are on the basis of Market Value which we would define as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion." Market Value is understood as the value of an asset estimated without regard to costs of sale or purchase and without offset for any associated taxes.

Our valuations of the property interests in Groups I, II and IV have been made on the assumption that the owner sells the properties on the open market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the properties.

The property interests in Groups I, II and IV have been valued on a market basis by reference to comparable market transactions. This approach rests on the wide acceptance of market price as the best indicator of value and pre-supposes that evidence of recent transactions in the market place can be extrapolated to similar properties, subject to allowances for variable factors.

In valuing the properties in Groups I and II in which the Government Leases expire before 30 June 1997, we have taken into account the provisions of Annex III of the Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China (the "PRC") on the question of Hong Kong and the New Territories Leases (Extension) Ordinance (Chapter 150 of the Laws of Hong Kong) stipulating that such leases may be extended without premium until 30 June 2047, and that an annual rent at three per cent. of the rateable value of the property will be charged from the date of extension.

In accordance with International Valuation Guidance Note No. 8 published by The International Valuation Standards Committee, the buildings and structures of Properties 1 and 2 in Group III belong to the category of specialized properties, which are rarely if ever sold on the open market, except by way of sale of the business or entity of which they are a part, due to their uniqueness, which arises from the specialized nature and design of the buildings, their configuration, size, location or otherwise. Consequently, reliable sale comparables cannot generally be identified for specialized properties.

Our valuations of Properties 1 and 2 in Group III and Property 1 in Group V are on the basis of Depreciated Replacement Cost which is used for the valuation of specialized properties. Depreciated Replacement Cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization". It is a method used in financial reporting to arrive at a surrogate for the market value of specialized and limited market properties, for which market evidence is unavailable. Depreciated Replacement Cost is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowance for physical deterioration and all relevant forms of obsolescence and optimization.

In valuing the capital value of Properties 1 and 2 in Group III and Property 1 in Group V, we have made the summation of the market value of the land use rights and the depreciated replacement cost of the buildings and structures as at the date of valuation.

We have not attributed any commercial value to the property in Group V due mainly to the prohibition against assignment or sub-letting or lack of substantial profit rents.

In valuing the property interests of the enlarged group, we have adopted the basis of valuation and have made the valuation assumptions in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

In valuing the properties of the enlarged group, we have complied with all the requirements contained in Chapter 5 and the Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The current status of the properties in Groups III, IV and V regarding major approvals, consents and licences required in the PRC is as follows:

Document/Approval	**Group –**	**III**	**III**	**IV**	**IV**	**V**
	Property –	1	2	1	2	1
State-owned Land Use Rights Certificate		Yes	Yes	N.A.	N.A.	Yes
Building Ownership Certificate/ Realty Title Certificate		Yes	Yes	No	Yes	No

N.A. – Not Applicable

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rental, site and floor areas and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our valuation experience of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have inspected the exterior and, where possible, the interior of the properties, in respect of which we have been provided with such information as we have required for the purpose of our valuations. However, no structural survey, investigation or examination has been made, but in the course of our inspections we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

We have been shown copies of various documents relating to the properties and have caused searches to be made at the Land Registry regarding the properties in Hong Kong. However, we have not searched the original documents to verify any amendments which may not appear on the copies handed to us. Due to restrictions of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties in Groups III, IV and V or any material encumbrances that might be attached to the properties. We are not in a position to advise on the Group's title to the properties. However, we have made reference to the opinion given by the Company's legal advisers on PRC laws in respect of the Group's title to the properties in Groups III, IV and V.

The scope of valuation has been determined with reference to the property list provided by the Group. All properties on the list have been included in this valuation certificate

We have had no reason to doubt the authenticity and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars. The adopted exchange rate for the valuation of properties in Groups III, IV and V is the prevailing rate as at the date of valuation, being HK$1 to RMB0.95 and no significant fluctuation in exchange rate has been found between that date and the date of this letter.

The conclusion of values is based on generally accepted valuation procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgment in arriving at the valuation, you are urged to consider carefully the nature of such assumptions which are disclosed in this report and should exercise caution when interpreting this report.

We hereby certify that we have neither present nor prospective interest in the Company or the value reported.

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
Castores Magi (Hong Kong) Limited
Ernest Cheung Wah Fu
Member of China Institute of Real Estate Appraisers and Agents
China Registered Real Estate Appraiser
B.Sc. MRICS MHKIS RPS MCIArb
Director

Note: Ernest Cheung Wah Fu is a Registered Professional Surveyor who has over 14 years of experience in valuing properties in Hong Kong and the PRC. His name is included in the List of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers set forth by the Hong Kong Institute of Surveyors.

SUMMARY OF VALUES

Group I – Property interests owned and occupied by the Group in Hong Kong

Property	Capital Value in existing state as at 30 November 2007 *HK$*
1. Workshop 23 on 14th Floor, Car Parking Space P11 and Lorry Parking Space L15 on 1st Floor, Yale Industrial Centre, Nos. 61-63 Au Pui Wan Street, Shatin, New Territories, Hong Kong.	1,210,000
2. Workshops 1-22 on 14th Floor, Yale Industrial Centre, Nos. 61-63 Au Pui Wan Street, Shatin, New Territories, Hong Kong.	10,200,000
Sub-Total:	**11,410,000**

Group II – Property interest owned by the Group for investment in Hong Kong

Property	Capital Value in existing state as at 30 November 2007 *HK$*
1. Car Parking Space No. L12 on 1st Floor, Wing Kin Industrial Building, Nos. 4-6 Wing Kin Road, Kwai Chung, New Territories, Hong Kong.	400,000
Sub-Total:	**400,000**

Group III – Property interests held and occupied by the Group in Fujian Province, the PRC

Property		Capital Value in existing state as at 30 November 2007 *HK$*
1.	Kiu Hung Centre, No. 1 Gong Ye Road, Chengxiang District, Putian City, Fujian Province, The PRC.	28,990,000
2.	Kiu Hung Industrial Centre, Hushi Zhen, North Shore of Mei Zhou Bay, Putian City, Fujian Province, The PRC.	67,430,000
	Sub-Total:	**96,420,000**

Group IV – Property interests held by the Group for investment in Fujian Province, the PRC

Property		Capital Value in existing state as at 30 November 2007 *HK$*
1.	Level 2, No. 1 Shopping Mall, Hong Yang New City, No. 118 Yang Qiao East Road, Gu Lou District, Fuzhou, Fujian Province, The PRC.	6,586,000
2.	Whole of Level 17, Hong Yang New City, No. 118 Yang Qiao East Road, Gu Lou District, Fuzhou, Fujian Province, The PRC.	2,500,000
	Sub-Total:	**9,086,000**

Group V – Property interest to be acquired by the Group in the PRC

Property		Capital Value in existing state as at 30 November 2007 *HK$*
1.	A parcel of land and various buildings and structures erected thereon, Huanghuashan Zhen, Zhalute Banner, Tongliao Shi, The Inner Mongolia Autonomous Region, The PRC.	No commercial value
	Sub-Total:	**No commercial value**
	Grand Total:	**117,316,000**

VALUATION CERTIFICATE

Group I – Property interests owned and occupied by the Group in Hong Kong

	Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 30 November 2007 *HK$*
1.	Workshop 23 on 14th Floor, Car Parking Space P11 and Lorry Parking Space L15 on 1st Floor, Yale Industrial Centre, Nos. 61-63 Au Pui Wan Street, Shatin, New Territories, Hong Kong. 11/2, 380th shares of and in Sha Tin Town Lot No. 174 (the "Lot")	The property comprises a workshop unit on 14th Floor, a car parking space and a lorry parking space on 1st Floor of a 16-storey industrial building. The building was completed in 1987. The workshop unit of the property has a saleable area of about 633 sq.ft. (58.8 sq.m.). The Lot is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1 July 1898 (as extended until 30 June 2047 under Section 6 of the New Territories Leases (Extension) Ordinance). The current annual Government rent payable for the Lot is equal to 3% of the rateable value for the time being of the Lot.	The workshop unit of the property is currently occupied by the Group for storage and ancillary office purposes. The lorry and car parking spaces of the property are currently occupied by the Group for car parking purpose.	1,210,000

Note: The registered owner of the property is Kiu Hung Toys Company Limited, a wholly-owned subsidiary of the Company.

Property		Description and tenure	Particulars of tenancy	Capital value in existing state as at 30 November 2007 *HK$*
2.	Workshops 1-22 on 14th Floor, Yale Industrial Centre, Nos. 61-63 Au Pui Wan Street, Shatin, New Territories, Hong Kong. 136/2, 380th shares of and in Sha Tin Town Lot No. 174 (the "Lot")	The property comprises 22 workshop units on 14th Floor of a 16-storey industrial building. The building was completed in 1987. The workshop units of the property have a total saleable area of about 13,025 sq.ft. (1,210.1 sq.m.). The Lot is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1 July 1898 (as extended until 30 June 2047 under Section 6 of the New Territories Leases (Extension) Ordinance). The current annual Government rent payable for the Lot is equal to 3% of the rateable value of the time being of the Lot. The property is currently occupied by the Group for workshop purpose.	The property is currently leased to Kiu Hung Industries Limited, a wholly-owned subsidiary of the Company, for a term of 3 years commencing from 1 January 2007 to 31 December 2009 at a monthly rent of HK$60,000 inclusive of rates but exclusive of management fees.	10,200,000

Notes:

1. The registered owner of the property is Newgary Development Limited, a wholly-owned subsidiary of the Company.

2. The property is subject to a legal charge dated 15 July 1987 vide Memorial No. ST384460 in favour of Sin Hua Bank Limited (formerly known as Sin Hua Trust, Savings and Commercial Bank Limited).

3. The property is subject to a third legal charge dated 21 April 1993 vide Memorial No. ST694197 in favour of Sin Hua Bank Limited (formerly known as Sin Hua Trust, Savings & Commercial Bank Limited).

4. The tenancy agreement of the property is an intra-group leasing arrangement. According to the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors, "any property occupied by a company under an inter-company leasing arrangement within a group should be valued as owner-occupied property". Therefore, we have valued the property on the basis of owner-occupation.

Group II – Property interest owned by the Group for investment in Hong Kong

	Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 30 November 2007 *HK$*
1.	Car Parking Space No. L12 on 1st Floor, Wing Kin Industrial Building, Nos. 4-6 Wing Kin Road, Kwai Chung, New Territories, Hong Kong. 1/1, 110th share of and in Kwai Chung Town Lot No. 273 (the "Lot")	The property comprises a car parking space on 1st Floor of a 25-storey industrial building. The building was completed in 1981. The Lot is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1 July 1898 (as extended until 30 June 2047 under Section 6 of the New Territories Leases (Extension) Ordinance). The current annual Government rent payable for the Lot is equal to 3% of the rateable value for the time being of the Lot. The property is currently occupied by a third party for car parking purpose.	The property was subject to a tenancy agreement for a term of 1 year commencing from 1 January 2007 to 31 December 2007 at a monthly rent of HK$1,900 inclusive of rates and management fees. Currently, the property is subject to a tenancy agreement for a term of 1 year commencing from 1 January 2008 to 31 December 2008 at a monthly rent of HK$2,000 inclusive of rates and management fees.	400,000

Note: The registered owner of the property is Kiu Hung Toys Company Limited, a wholly-owned subsidiary of the Company.

Group III – Property interests held and occupied by the Group in Fujian Province, the PRC

Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 30 November 2007 *HK$*
1. Kiu Hung Centre, No. 1 Gong Ye Road, Chengxiang District, Putian City, Fujian Province, The PRC.	The property comprises 2 parcels of land and 28 buildings and structures erected thereon. The property has a total site area of 27,123.98 sq.m. The buildings were 1 to 5-storeys in height and were completed between 1988 to 1996. The property has a total gross floor area of approximately 26,085 sq.m. The property is subject to a land use rights for a term up to 31 July 2050.	The property is currently occupied by the Group for production, storage, research and development and ancillary office purposes.	28,990,000

Notes:

1. Pursuant to two State-owned Land Use Rights Certificates – Pu Guo Yong (2000) Zi Nos. C23348 and C23349 (國有土地使用証 – 莆國用(2000)字第C23348號及C23349號) both dated 2nd August, 2000 issued by the People's Government of Putian City (莆田市人民政府), the land use rights holder of the property, having a site area of 27,123.98 sq.m., is Kiu Hung Light Industrial Company Limited, Putian City, Fujian ("Kiu Hung Light Industrial") (福建莆田市僑雄輕工有限公司) – an indirect wholly-owned subsidiary of the Company. The land use rights are granted for the purpose of erecting workshops and warehouses.

2. The property is subject to 2 Building Ownership Certificates – Pu Fang Zi Nos. 080628-1 and 080628-2 (房屋所有權証 – 莆房字第080628-1號及080628-2號) both dated 8th May, 1997 issued by the People's Government of Putian City (莆田市人民政府) which are granted under the name of Kiu Hung Light Industrial.

3. According to the legal opinion provided by the Company's PRC legal advisers, the followings, inter alia, were noted:

   i. Kiu Hung Light Industrial is the unique legal holder of the land use rights and the unique owner of the buildings;

   ii. Kiu Hung Light Industrial can transfer, let and mortgage the property without any consent from a third party;

   iii. The buildings under Building Ownership Certificate – Pu Fang Zi No. 080628-1 (房屋所有權証－莆房字第080628-1號) were pledged. Prior to discharge of this pledge, the buildings covered by the pledge cannot be re-pledged or transferred. Apart from this, the property is not subject to any pledge, restrictions, court order or seizure.

4. The property is currently subject to the following pledge:

Pledge Agreement No.	**Term**	**Loan Amount** *(RMB)*	**In favour of**
20079169	From 2/8/2007 to 1/8/2008	8,000,000	興業銀行股份有限公司莆田秀嶼分行

5. The breakdown of capital value is as follows:

Land	HK$18,410,000
Buildings & structures	HK$10,580,000
Total	HK$28,990,000

	Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 30 November 2007 *HK$*
2.	Kiu Hung Industrial Centre, Hushi Zhen, North Shore of Mei Zhou Bay, Putian City, Fujian Province, The PRC.	The property comprises a parcel of land and 17 buildings and structures erected thereon. The property has a site area of 84,537.5 sq.m. The buildings were 1 to 5-storeys in height and were completed between 1997 and 1999. The property has a total gross floor area of approximately 21,722.8 sq.m. The property is subject to a land use rights for a term up to 31 July 2050.	The property is currently occupied by the Group for production, storage, research and development and ancillary office purposes.	67,430,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate – Pu Guo Yong (2006) Zi No. Y2006029 (國有土地使用証－莆國用(2006)字第Y2006029號) dated 13 September 2006 issued by the People's Government of Putian City (莆田市人民政府), the land use rights holder of the property, having a total site area of 84,537.5 sq.m., is Ka Hung Toys Co., Ltd. Fujian (福建嘉雄玩具有限公司), a wholly-owned subsidiary of the Company. The land use rights is granted for industrial purposes.

2. According to a Building Ownership Certificate – Pu Shi Fang Quan Zheng Xiu Yu Qu Zi No. 551210 (房屋所有權証－莆市房權証秀嶼區字第551210號) dated 2 December 2005 issued by Putian City Construction Bureau (莆田市建設局), the building ownership is vested in Ka Hung Toys Co., Ltd. Fujian (福建嘉雄玩具有限公司), a wholly-owned subsidiary of the Company.

3. According to the legal opinion provided by the Company's PRC legal advisers, the following, inter alia, were noted:

   i. Ka Hung Toys Co., Ltd. is the unique legal holder of the land use rights and the unique owner of the buildings;

   ii. Ka Hung Toys Co., Ltd. can transfer, let and mortgage the property without any consent from a third party;

   iii. The property is not subject to any pledge, restrictions, court order or seizure.

4. The breakdown of capital value is as follows:

Land	HK$51,730,000
Buildings & structures	HK$15,700,000
Total	HK$67,430,000

Group IV – Property interests held by the Group for investment in Fujian Province, the PRC

Property		Description and tenure	Particulars of tenancy	Capital value in existing state as at 30 November 2007 *HK$*
1.	Level 2, No. 1 Shopping Mall, Hong Yang New City, No. 118 Yang Qiao East Road, Gu Lou District, Fuzhou, Fujian Province, The PRC.	The property comprises a shop unit on Level 2 of a multi-storey commercial building which was completed in about 1995. The property has a gross floor area of 898.64 sq.m.	Please refer to note 2 below.	6,586,000

Notes:

1. According to a Commodity Flat Sales and Purchase Contract (商品房買賣合同) No. 0111767 dated 25 October 2001 entered into between Fortune Engineering Co., Ltd. Fujian (福建宏利工程有限公司) (Vendor) and Kiu Hung Investments Ltd. (僑雄投資有限公司) (Purchaser), the Purchaser acquired the property from the Vendor at a consideration of RMB8,986,800

2. According to a joint property leasing agreement made between Kiu Hung Investments Limited (僑雄投資有限公司) ("Party A") and 僑雄置業有限公司 ("Party B") (a related private company beneficially owned by Mr. Hui Kee Fung, Mr. Hui Ki Yau and Madam Hui Hung Tan, Teresa) dated 1 November 2006, Party A (owner of the property) and Party B agreed to combine their respectively property and jointly lease to a third party under the name of Party B. The tenancy agreement shall be signed by Party B on behalf of Parties A and B. The two parties agreed to share the rental income and tax outgoings in a ratio of 65% (Party A) and 35% (Party B).

   Pursuant to a tenancy agreement made between Party B and a third party dated 8 November 2006, the combined property (i.e. Party A's property and Party B's property, having a total gross floor area of 1,380 sq.m.) was leased for a term of 5 years commencing from 8 January 2007 to 7 January 2012 at a monthly unit rent of RMB35 per sq.m. (i.e. a monthly rent of RMB48,300 of which RMB31,395 was attributable to Party A). This rent is exclusive of water charge, electricity charge and management fees.

3. According to the legal opinion provided by the Company's PRC legal advisers, the followings, inter alia, were noted:

   i. Kiu Hung Investment Ltd. is the unique owner of the property;

   ii. Kiu Hung Investment Ltd. had paid the purchase price of the property but had not apply for registration of the building ownership and had not obtained the building ownership certificate (房屋所有權証). There is no legal obstacle for the issue of such building ownership certificate.

   iii. Prior to registration of the building ownership certificate and issue of the building ownership certificate, the property cannot be transferred or pledged;

   iv. The tenancy agreement was legal and valid;

   v. The property is not subject to any pledge, restrictions, court order or seizure.

4. The Company has stated that application of the building ownership certificate for the property is under process and the certificate is expected to be obtained by the Group within the first quarter of 2008.

5. According to an agreement for sale and purchase of shares in Kiu Hung Investments Limited (i.e. the owner of the property) dated 31 December 2007 made between Legend Wealth Holdings Limited (the "Vendor") and Real Win Investments Limited (the "Purchaser"), the Vendor has agreed to sell and the Purchaser has agreed to purchase the sales shares and the debt of Kiu Hung Investments Limited at a consideration of HK$7,500,000.

	Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 30 November 2007 *HK$*
2.	Whole of Level 17, Hong Yang New City, No. 118 Yang Qiao East Road, Gu Lou District, Fuzhou, Fujian Province, The PRC.	The property comprises the whole Level 17 of a multi-storey commercial building which was completed in about 1995. The property has a gross floor area of approximately 704.84 sq.m.	The property is currently subject to 6 tenancy agreements for various terms commencing from 25 May 2007 to 8 October 2008 at a total monthly rent of RMB14,533 exclusive of water charge, electricity charge and management fees.	2,500,000

Notes:

1. According to a Realty Title Certificate (房地產權證－榕房權証R字第0201912號) dated 24 January 2002 issued by Fuzhou City Real Estate Management Bureau (福州市房地產管理局), the title of the property is vested in Fujian Kcare Giftoys Co., Ltd. (福建奇嘉禮品玩具有限公司).

2. According to the legal opinion provided by the Company's PRC legal advisers, the followings, inter alia, were noted:

   i. Fujian Kcare Giftoys Co., Ltd. is the unique owner of the property;

   ii. Fujian Kcare Giftoys Co., Ltd. can transfer, let and mortgage the property without any consent from a third party;

   iii. The tenancy agreements of the property are legal and valid;

   iv. The property is not subject to any pledge, restrictions, court order or seizure.

Group V – Property interest to be acquired by the Group in the PRC

Property	Description and tenure	Particulars of tenancy	Capital value in existing state as at 30 November 2007 *HK$*
1. A parcel of land and various buildings and structures erected thereon, Huanghuashan Zhen, Zhalute Banner, Tongliao Shi, The Inner Mongolia Autonomous Region, The PRC.	The property comprises a parcel of land and 19 various buildings and aboveground and underground structures, which were completed between 2004 and 2006. The buildings of the property have a total gross floor area of 1,273.2 sq.m. The property is held under the land use rights for a term up to 26 November 2034.	The property was currently vacant.	No commercial value

Notes:

1. Pursuant to a Land Use Agreement (用地協議) dated 10th June, 2004 made between Heng Yuan Mining Co. Ltd. (恆源礦業有限責任公司) and the People's Government of Huanghuashan Zhen, Zhalute Banner (扎魯特旗黃花山鎮人民政府), the former party is permitted to use a parcel of land having a site area of 90 Chinese acres for a term of 30 years at an annual compensatory fee of RMB50 per Chinese Acre.

2. Pursuant to a State-owned Land Use Rights Certificate – Zha Guo Yong (2004) Zi No. 402020001 (國有土地使用証－扎國用(2004) 字第402020001號) dated 26 November 2004 issued by the People's Government of Zhalute Banner (扎魯特旗人民政府), Heng Yuan Mining Co. Ltd. (恆源礦業有限責任公司) was granted the land use right having a site area of 77,337.2 sq.m. by way of lease for a term up to 26 November 2034 for mining purposes.

3. It is stated in the legal opinion given by the Company's PRC legal advisers, inter alia, that:

   i. Heng Yuan Mining Co. Ltd. is the unique legal user of the land;

   ii. Heng Yuan Mining Co. Ltd. can use the land according to the designated purpose within the land use term.

4. We have not ascribed any commercial value on the buildings and structures of the property as they do not possess any Building Ownership Certificate (房屋所有証權).

Technical Review of the Huanghuashan Semi-Anthracite Project

Inner Mongolia, China

for
Kiu Hung International Holdings Limited

SRK Project Number SHK004

SRK Consulting China Ltd, B1408 COFCO Plaza,
No. 8 Jianguomennei Dajie, Dongcheng District, Beijing China 100005

Contact: Dr P Michaelsen
pmichaelsen@srk.cn
www.srk.cn

31st January 2008

EXECUTIVE SUMMARY

Summary of Principal Objectives

Kiu Hung International Holdings Ltd. ("Kiu Hung" or "the Company" or "the Group") requested SRK Consulting China Ltd ("SRK") to conduct a technical review in order to compile an independent report which will be published in a circular to be dispatched to Kiu Hung shareholders.

The scope of the review was twofold:

- To conduct a review of the available data, including a site visit to review the geology (resource), mining and environmental issues;
- To compile the data and prepare an independent report on the resources as required. The report will in turn provide potential investors with a clear and un-biased view of the asset and its future production potential.

This review thus summarises the major findings of the SRK work which was conducted during October and November 2007, and states the Coal Resources for the project area in accordance with the Chinese Resource and Reserve Standard.

Outline of Work Program

The work program involved six phases:

- Desktop review of data provided by the Kiu Hung and planning for site visit;
- Travel to Inner Mongolia to inspect the mine and discuss technical aspects with the mine staff;
- Compilation of a draft report;
- Return travel to Beijing, data analysis and completion of draft report. Copying of the report to Kiu Hung. Review of report by Kiu Hung. Provision of comments to SRK;
- Report editing by SRK as required;
- Completion of a technical report which is acceptable to the Stock Exchange of Hong Kong Limited.

Results

Geology and Mineral Resource

The geology of the fault-bounded Huanghuashan coal mine deposit is somewhat complex as it is characterized by numerous faults and intrusions. The three minable coal seams are highly altered, laterally restricted, and would produce a high ash (up to 45.54%), middle sulphur (up to 2.5%), low phosphor coal with middle-high calorific value (19-26 MJ/kg) suitable for the domestic market.

The geological conditions at the Huanghuashan underground mine are in general quite complex, causing difficult conditions for underground extraction of the coal seams. The mine extracts semi-anthracite to anthracite coal from three laterally restricted seams. The three seams range in thickness from 0.7m to 4.39m, and reaches depths of up to 150m. The methane gas levels are low. The coal products are generally only suitable for a domestic market, as the ash and sulphur content is on the high side for the export market.

SRK reviewed the Chinese estimates of Coal Resources and compared them to the JORC Code.

The Huanghuashan underground mine has demanding conditions for underground coal mining with imposing structural disturbance, steep dips, laterally restricted dirty coals and common intrusions. However, the roof is somewhat competent and the mine is characterized by low gas values.

Since 1999 China adopted a new numerically based classification of Resources/Reserves which supersedes an alphabetically based classification which existed for some time in China's coal industry. The two systems are shown below and an equivalent JORC classification has been derived.

JORC Code	"Reserve" Category	Current Chinese "Reserve" Category
Measured Resource	A	111, 111b, 121, 121b, 2M11, 2M21, 2S11, 2S21, 331
Indicated Resource	B	
Inferred Resource	C	112, 112b, 122, 122b, 2M12, 2M22, 2S12, 2S22, 332
	D	113, 113b, 123, 123b, 2M13, 2M23, 2S13, 2S23, 333

The resource estimation process at the Huanghuashan coal mine was a manual calculation approach which is standard for Chinese reporting. The area is divided into smaller blocks which would have reasonably homogeneous conditions in terms of seam thickness and quality, as well as level of reliability of data points. The area of these blocks is determined by tracing a planimeter around the boundary of the area three times to determine a valid result. An average seam thickness is determined for the block using an unweighted average of the borehole seam thickness data. An average density of a seam is determined and applied to all the blocks. The tonnage for each block is therefore derived by multiplying the area by the average seam thickness of the block by the average seam density. A detailed explanation of this method and comparison to JORC standards and classifications is attached in Appendix 1.

The Coal Resources is summarised below both in the Chinese and JORC standards for comparison. Note that according to the JORC Code there are no Coal Reserve statements for the Huanghuashan mine.

Published Coal Resources for the Huanghuashan Coal Mine Area

Coal	**Category**		**Total**
Seam	**C (333)**	**D (334)**	(Mt)
1	1.34	0.38	1.72
2	3.21	0.00	3.21
3	3.60	0.80	4.40
Total	**8.15**	**1.18**	**9.33**

Published Total Coal Resources for the Entire Huanghuashan Area

	Category		**Sub-total**
Area	**333 + 334**	**Unclassified**	**(Mt)**
Mine	**9.33**	**0.00**	**9.33**
Exploration	**39.95**	**65.75**	**105.70**
Total	**49.28**	**65.75**	**115.03**

Revised Coal Resources for the Huanghuashan Coal Mine Area by SRK

JORC Coal Resources			
Mine	**Measured and Indicated**	**Inferred**	**Total**
	(Mt)	(Mt)	(Mt)
Huanghuashan underground mine	0	7.85	7.85
Huanghuashan exploration area	0	39.95	39.95
Total	**0**	**47.8**	**47.8**

* *It is highlighted here that the license for the exploration area has not been presented to SRK.*

Mining

The Huanghuashan underground mine was visited by SRK in October 2007, and data from the site visit is included in this report. The underground mine utilise manual longwall retreat mining coupled with blasting methods.

The mine has been planned to produce 300,000 tonnes of semi-anthracite coal per annum. The development has been done in panel incline technique suitable to work steeply inclined seams and is only partially complete. Standards of development and planning are in accordance with Chinese Mining standards although there is scope for improvement. No processing plant has been provided for in the mine plan.

Surface infrastructure like roads, buildings etc is yet to be fully constructed. Transportation of coal from the mine site will be made by road to the railway yard some 2km away, and then to the power plant by rail. The road passing through the northern part of the mine site is capable of handling the extra burden of transportation of 300,000 tonnes of coal per year. The health of the equipments as observed superficially (i.e. the mine was not in operation) appears to be good.

Mine ventilation is adequate and make of water in the mine is low. Proper arrangements as per Chinese Mining standards has been made for ventilation and pumping.

Total geological resource is 7.85 million tonnes of coal, while the recoverable resource after loss due to protective pillars and 90% panel recovery is 4.31 million tones. At full production level the life of the mine will be approximately 14 years. Significantly, there is scope for increasing the coal resources after carrying out exploration drilling around the lease area.

The lean-smokeless coal is proposed to be supplied to power plants and steel plants in Inner Mongolia and the Northeastern provinces. Although there is no agreement for offtake of the Huanghuasan coal, as per information received at site, specified quality of coal for the power plants is heat value of or more than 3000 kcal/kg and the plants are ready to receive total production from the mine.

Mining conditions are somewhat difficult based on the many faults and igneous intrusives. The Huanghuashan mine operates in seam dips from 20 – 22 degrees. The Huanghuashan underground mine utilise conventional methods of transport as indicated in the table below.

Transportation Methods for the Huanghuashan Coal Mine Area

Subsidiary Company	Mine Site	Transportation		
		Men	Material	Coal
Tongliao Hengyuan Mining Company Ltd	Huangshushan Underground Mine	Walk	Winch and Skip	Rubber Belt Conveyor

Coal Processing

No coal processing plant currently exists at the Huanghuashan mine site.

Environmental

Current Status of Compliance

SRK's environmental technical review of the project identified a number of environmental issues as relate to the development of the Huanghuashan Coal Mine not following all the conditions for construction, as stated in the governmental approvals. There are also aspects of the operation that could be improved to ensure compliance with Chinese Environmental laws and regulatory requirements for environmental protection. Positive aspects of the review relate to the Huanghuashan EIA and Soil and Water Conservation Plans detailing a fairly comprehensive strategy for protecting the surrounding environment and for making use of waste by-products from the operation.

Impact Assessment

SRK's site investigation of Hengyuan's Huanghuashan project found reasonable project site conditions with a number of environmental issues and aspects. Hengyuan's management team were reasonably aware of the issues at site, but as yet hadn't introduced the necessary environmental protection measures to combat the impacts of the below listed aspects/potential liabilities. The environmental technical review identified the following as the most significant environmental management liabilities that relate to the current Huanghuashan's development operations at the time of SRK's site visit:

- Surface water management and discharges (i.e. stormwater runoff and diversions).
- Groundwater management and discharges (i.e. mine dewatering not treated or collected).
- Rehabilitation of waste rock and coal stockpiles and other disturbed areas.
- Storage and handling of hazardous materials.

- Waste generation and management (industrial and domestic wastes).
- No characterization of process waste materials or gangue.
- No monitoring of waste water discharges.
- Potential contaminated sites.
- Lack of a structured closure planning process.
- Lack of erosion control measures.

Status of Permitting

The Huanghuashan Coal Mine possesses the necessary Business License, Land Use Permit, Feasibility Study, Mine Design Plan, Soil and Water Conservation Plan, EIA and their Approvals for operation, but has not yet obtained their final acceptance for the projects environmental protection measures or their operating permit for beginning for full-scale operation.

Occupational Health and Safety

SRK did not conduct a full OHS inspection at the Huanguashan mine site. However, sub-standard safety practices compared to other international operations existed at the mine site. To illustrate this, a list of concerns is listed here:

- No site inductions at the mine site were conducted for SRK personnel at the underground mine;
- Usage of personal protective equipment (PPE) is comparatively sub-standard (e.g. safety glasses, ear protection, dust masks or safety boots are not worn);
- No sign-in or sign-out was requested from SRK personnel;
- No self-rescuers provided;
- Positive lock-out procedures were not applied;
- No hazard signs posing possible risks to employees and visitors were displayed at the mine.

Infrastructure

Electrical power at 10 kV is supplied to Huanghuashan mine by a connection to the provincial government-owned grid at 8km from the mine. Two lines have been drawn from the sub station by overhead line to mine receiving station. One tranformer steps down the voltage to 380V for surface use. Both 10 kV line is directly sent to underground substation located in the pump house at +137m, where two transformers (400KVA) step down the voltage to 660V and are interconnected for switching over in case of emergency. The power supply to site was reported as very reliable with minimum negative impact to the mining operation.

There is no plan for setting up a processing plant for ROM coal. But few bands and igneous intrusions were observed within the coal seams which cannot be separated by selective mining. The admixture of impurities may vitiate the quality of the product considerably and thereby affecting the profitability of the venture.

The shaft systems at the Huanghuashan underground mine are summarised in the table below:

Shaft Systems for the Huanghuashan Coal Mine Area

Mining Company	Mine Site	Shaft Systems		
		Ventilation	Men/Material	Coal/Waste
Tongliao Hengyuan Mining Co Ltd	Huanghuashan Underground Mine	2 x decline	1 x decline	1 x decline

Social

Public participation assessment/investigation results found that the local residents have some understanding of this project and its consequences both positive and negative, the majority were in support of the project, but expressed the wish that the project not destroy the local environment.

The main social/community protection objectives as relate to adverse environmental influences are: No adverse effects caused by the construction and operation of the proposed project to the surrounding residential areas. There were no incidents noted or records sighted of public complaints in relation to the activities of the Huanghuashan development operations as part of this review.

In the assessment zone for the Huanghuashan mine there are no heritage sites, protected relics or rare animal and plant resources.

Capital Expenditure

The capital expenditure at the Huanghuashan mines over the last four years is estimated at RMB 20 million, associated with construction of the underground coal mine. No major costs are budgeted for the future.

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DISCLAIMER

The opinions expressed in this review have been based on the information supplied to SRK Consulting by Kiu Hung International Holdings Ltd (Kiu Hung) and the Tongliao Henyuan Mining Company Ltd, Inner Mongolia. The opinions in this review are provided in response to a specific request from Kiu Hung to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

1 INTRODUCTION AND SCOPE OF REPORT

SRK was commissioned by Kiu Hung to undertake an independent review of the Huanghuashan semi-anthracite Project in Inner Mongolia.

The purpose of the evaluation is to provide a technical report which provides Kiu Hung with a clear and un-biased view of the asset and its future production potential. This review summarises the major findings of the SRK study.

2 PROGRAM OBJECTIVES AND WORK PROGRAM

2.1 Program Objectives

Kiu Hung commissioned SRK Consulting China Ltd ("SRK") to provide an independent Report on the Huanghuashan coal mine for the company.

2.2 Purpose of the Report

Kiu Hung requested SRK to review the Huanghuashan coal mining assets so that SRK can assist with a proposed purchase by the group. SRK is required to produce a Technical Report for the company which will in turn be made available for Kiu Hung investors on the Stock Exchange of Hong Kong Limited (HKSE).

2.3 Reporting Standard

This report has been prepared to the standard of and is considered by SRK to be, a Technical Assessment Report under the guidelines of the Valmin Code. The Valmin Code is the code adopted by the Australasian Institute of Mining and Metallurgy (AusIMM) and the standard is binding upon all AusIMM members. The Valmin Code incorporates the Joint Coal Reserves Committee Code (JORC) for the reporting of Mineral Resources and Coal Reserves.

This report is not a Valuation Report and does not express an opinion as to the value of mineral assets. Aspects reviewed in this report do include product prices, socio-political issues and environmental considerations; however, SRK does not express an opinion regarding the specific value of the assets and tenements involved.

In this Report, identified mineral resources and mineable Coal Reserves are quoted using categorisation in accordance with the JORC Code. However, it should not be assumed that these resources and reserves are necessarily JORC Code compliant, at least until further documentation can be obtained on the estimates and they have been formally endorsed by a 'competent person' in accordance with the JORC Code.

2.4 Work Program

The work program included the following items:

- Desktop review of data provided by the Kiu Hung and planning for site visit;
- Travel to Inner Mongolia to inspect the mine and discuss technical aspects with the mine staff;
- Compilation of a draft report;
- Return travel to Beijing, data analysis and completion of draft report. Copying of the report to Kiu Hung. Review of report by Kiu Hung. Provision of comments to SRK;
- Report editing by SRK as required;
- Completion of a technical report which is acceptable to the Stock Exchange of Hong Kong Limited.

2.5 Project Team

The SRK team and their areas of responsibility are as follows:

Table 2-1: SRK Consultants – Titles and Responsibilities

Name of Consultant	Discipline and Responsibility
Dr Per Michaelsen	Senior Coal Geologist, Report Editing
Arabinda Basu	Underground Coal Mining Engineer, Production and Costs
Andrew Lewis	Senior Environmental Engineer
Dr Yonglian Sun	Principal Consultant, Peer Review

Per Michaelsen, ***PhD***, is a senior consultant with SRK China with a specialty in coal-bearing deposits. He completed a doctoral study at James Cook University in Australia in 1999 on the development of Permian coal deposits and basinal dynamics. Per has more than 14 years experience in the field of coal and coal seam gas with work conducted in Australia, China and Mongolia. He has been responsible for exploration management, field mapping projects, research, report writing and presentations. He has worked with a large number of clients including BHP Billiton, Anglo Coal, Xstrata Coal, Byfield Ventures and Asia Gold.

Arabinda Basu, ***BEng*** (Mining), an Associate Consultant to SRK based in Calcutta. Arabinda specializes in coal with over 30 years of experience in underground and open pit coal operation. Before being associated with SRK, Arabinda worked 24 years with Tata Steel, the largest private steel maker in India with multiple underground and open pit coal mines in Eastern India. In his last 6 years in Tata, Arabinda was heading the mine planning division.

Andrew Lewis, ***BEng, MAusIMM*****,** is an Environmental Engineer SRK Consulting China. He has worked extensively in China and Asia for nearly a decade. He has worked on a wide variety of different projects ranging from technology transfer to environmental health and safety. Mr Lewis will conduct review on environmental issue.

Dr Yonglian Sun, ***BEng, PhD, MAusIMM, MIEAust, CPEng,*** is a Principal Consultant and the managing director of SRK China with over 20 years experience in geotechnical engineering, rock mechanics and mining engineering in five countries across four continents. He has extensive international mining experience with an emphasis in site investigation, analysis and modelling of geotechnical issues in open pits, underground mines, tunnels, as well as project management. Recently, Yonglian has coordinated and worked on a number of due diligence projects like Lingbao Gold, China Coal, Yueda Holdings Yunnan Pb-Zn project and Xinjiang Xinxin in China. Dr Sun is reviewing the project.

2.6 Warranty

Kiu Hung has represented in writing to SRK that full disclosure has been made of all material information and that, to the best of its knowledge and understanding, such information is complete, accurate and true.

2.7 Statement of SRK Independence

Neither SRK nor any of the authors of this Review have any material present or contingent interest in the outcome of this report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK's fee for completing this Review is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the report.

None of SRK or any authors of this report has any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of Kiu Hung or any of its subsidiaries, or was proposed to be acquired, or disposed of by, or leased to any member of Kiu Hung or any of its subsidiaries within the two years immediately proceeding the issue of this circular.

None of SRK or any authors of this report has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

2.8 SRK Experience

The SRK group employs approximately 800 professionals internationally and has 33 permanently staffed offices in ten countries on six continents. In Australia SRK has approximately 80 staff in five offices located at Perth, Sydney, Maitland, Brisbane and Melbourne. SRK China has an office in Beijing with 14 staff.

2.9 Forward-Looking Statements

Estimates of mineral resources, coal reserves and mine production are inherently forward-looking statements, which being projections of future performance will necessarily differ from the actual performance. The errors in such projections result from the inherent uncertainties in the interpretation of geologic data, in variations in the execution of mining and processing plans, in the ability to meet construction and production schedules due to many factors including weather, availability of necessary equipment and supplies, fluctuating prices and changes in regulations.

The possible sources of error in the forward-looking statements are addressed in more detail in the appropriate sections of this report. Also provided in the report are comments on the areas of concern inherent in the different areas of the mining and processing operations.

3 LOCATION OF THE PROJECT

3.1 Location and Access

The Huanghuashan underground coal mine is located in the town of Huanghuashan, Zalute Banner, Inner Mongolia as shown in Figure 3-1 with a longitude of 121˚11'05'' – 121˚12'48'' and a latitude of 44˚38'06'' – 44˚38'43''.

Access to the region is excellent. Flights to Tongliao are provided from a number of cities in China. Vehicular access to the area is via a four-lane highway from Tongliao to Lubei (195 km), then a sealed road to the Huanghuashan underground mine (30 km to the west).

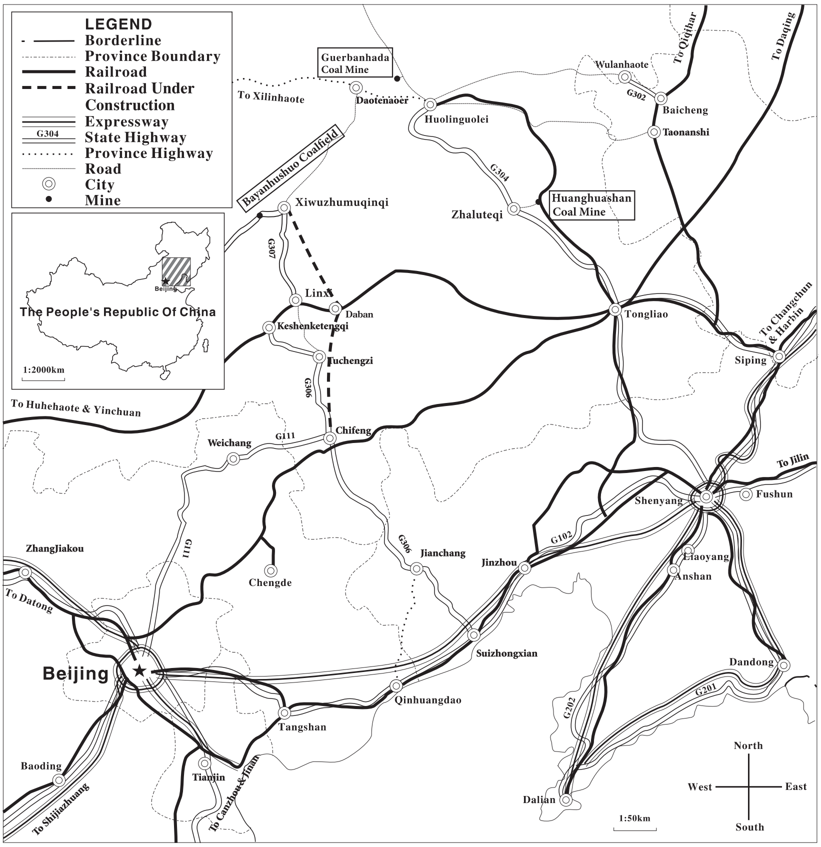

Figure 3-1: General Location Map of the Huanghuashan Coal Mine Area

4 GEOLOGICAL ASSESSMENT

4.1 Geological Advantages of the Inner Mongolia Region

Significant coal deposits of Permian to Cretaceous age occur within the westernmost, central and eastern part of the Autonomous Region of Inner Mongolia. The tenements controlled by the Tongliao Hengyuan Mining Company Ltd include the underground coal mine at Huaghuashan and a surrounding exploration tenement which may be prospective for further discoveries.

4.2 Geological Framework

The Huanghuashan coal basin is typical of Mesozoic coal basins in Northeast China. It is generally isolated and fault bounded. As such, the Huanghuashan basin is bounded by faults to the north, south, east and west (Figure 4-3). The spatial distribution of the faults clearly demonstrates two regional deformation events:

1. Reverse faults trending NE-SW with vertical displacement up to 220m (Figure 4-1).

2. Normal faults trending WSW-ENE.

Above all, the Huanghuashan mining lease is characterized by abundant intrusives (i.e. sills and dykes). These intrusives have significant ramifications that impinge on the overall prospectivity of the Huanghuashan mining lease as well as the exploration area. The abundant intrusives have clearly downgraded the economic potential of the area.

It is concluded here that the NW-SE trending fault structures provided the passage for magma migration in the Huanghuashan district. The intrusives are probably associated with changes in the overall crustal fabric (i.e. structural partitions) along northern China and southern Mongolia during Cretaceous-Tertiary times.

Figure 4-1: Minor Reverse Fault Exposed in Huanghuashan Incline

Figure 4-2: Felsic Intrusive Developed in Seam 3 (Pencil for Scale)

All three coal seams within the Huanghuashan have been selectively intruded by sills are intruded within the eastern and northeastern mining lease.

A minor igneous sill (i.e. felsic composition) within Seam 3 was studied; photo documented and sampled during the inspection of the underground mine (Figure 4-2).

Clearly, with the spatial distribution of the 52 drillholes more faults and intrusives would be expected in the area.

4.3 Resource and Reserves Classifications

Before 1999 China used a letter system to categorise resource and reserves estimates. China has since adopted a three number system. However, both the systems are different from the criteria used in defining a resource under the Australian Joint Ore Reserves Committee (JORC) Code. The comparison between different systems is provided in Appendix 1.

4.4 Sampling Quality Assurance and Quality Control

China has its own system and requirements for quality assurance and quality control (QA/QC) for different stages of exploration on various types of mineral deposits. The geological brigade and the mine staff, who have the qualifications for conducting exploration, followed the proscribed procedures for QA/QC, and complied with Chinese regulations. However as current Chinese reserve codes or regulations are still not recognized in Western countries, the QA/QC procedures used at Huanghuashan are not necessarily compliant with the JORC Code. The main differences between Chinese resource standards and the JORC Code are in the areas of sampling and assaying. The JORC Code is stricter on drill core recovery and in terms of the qualification of the laboratory.

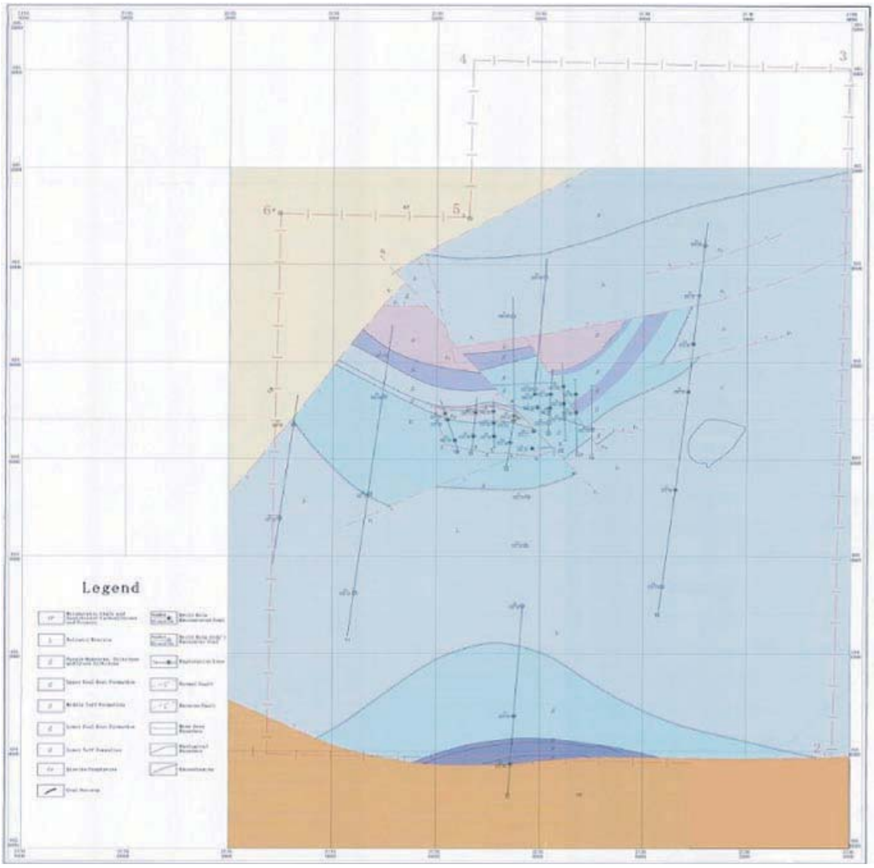

Figure 4-3: Geological Map of the Area around the Huanghuashan Coal Mine

4.5 Geology and Mineral Resources

The Huanghuashan semi-anthracite project is located 30km west of the town of Lubei, Zalute Qi, and some 195km northwest of Tongliao in the province of Inner Mongolia. The 1.7099 km^2 mining area and the 124km^2 exploration area are rather flat with an elevation difference in the order of 20m. Across the license area the topography ranges from approximately 220m RL to 240m RL above sea level. The area is covered by grassy vegetation in sufficient quantities for the grazing by sheep.

The region has long cold winters, which starts in September. The average winter temperature is -6°C to -29°C, but it may drop lower occasionally. The short summer season starts in May. The warmest season is July and August when the temperature may rise up to 40.6°C.

Snow falls between September and May with a range of snow depths between 10 and 15 centimetres (cm), the snow will melt by the end of June. The ground is frozen between October and July, to a maximum depth of 3m.

The region is considered to have a semi-dry continental climate as although the annual rainfall is 387.6mm (predominantly between June and August). The dominating wind is north-western.

The region lies in a seismically inactive zone.

The mine is connected with the Lubei Township and Tongliao city with asphalt road. The paved road to Lubei is passing through the exploration area. The Zalute railway station is located 1.5km east of the coal mine.

Coal from the mine would be a major industry for the rural district during full operation. The closest coal mine is located more than 100km away; it is of similar Jurrasic age and semi-anthracite composition to the Huanghuashan deposit.

Table 4-1: Statigraphic Sequence for Huanghuashan

Stratigraphic Unit	**Thickness Range (m)**
Quaternary	0.48 - 41.67
Middle Jurassic (J_3)	0 - 1000
Middle Jurassic (J_2^5)	150 - 300
Middle Jurassic (J_2^4)	34 -183
Middle Jurassic (J_2^3)	183 - 273
Middle Jurassic (J_2^2)	50 - 105
Middle Jurassic (J_2^1)	400 - 600

The Quaternary material is usually unconsolidated and weathered soil, clays, sands and gravel deposited by recent river systems. The Tertiary material although generally semi-consolidated sediments, has some hard bands of sandy siltstone interspersed throughout the sequence. The Tertiary sediments constitute the bulk of the overburden material and unconformably overlie the Jurassic sediments.

The coal bearing formation within the Huanghuashan area is the Middle Jurassic Shanghanmei Formation (J_2^4) as shown in Table 4-1.

4.6 Coal Geology

There are five master coal seams in the Middle Jurassic Shanghanmei Formation (J_2^4). However, only 3 seams are economical. The three economical seams range from 0.70 to 4.39m in thickness (Table 4-2). The coal-bearing master intervals may consist of a single seam or a number of seams which are within vertical succession and which are laterally interconnected. The general rank is semi-anthracite, with anthracite developed in places.

In general, the structure of the seams is relatively simple. The seams have a maximum thickness in the basinal depocentre (i.e. centre of mining lease), and thins rapidly towards the basin margin. The coal quality is linked with coal thickness; the thick coal seams are characterized by a relatively lower ash content compared with the thinner basin margin coals.

Based on the available drillhole data coupled with a literature review, it is considered here that the coal seams formed in laterally restricted topographically lows (i.e. peat swamps) during the Middle Jurassic Yanshan compressive stage. The Yanshan tectonic stage affected much of northeastern China during the Mesozoic with intense folding, magmatic intrusions and a dominant northeast trending (e.g. Li et al., 1988; Zhuang et al., 2006).

It is highlighted here that the confined nature of the coal seams thus limits the overall economic potential of the exploration area. The overall conditions for peat accumulation and preservation deteriorated from Seam 3 (oldest) to Seam 1 (youngest):

Seam 1 is the highest minable master coal seam interval in the stratigraphic sequence. It ranges in thickness from 0.80 – 2.33m (including clastics) and 0.73 – 1.90m (excluding clastic partings). Its lateral distribution is limited to the central sector of the basin, reflecting the general upward evolutionary contraction of the lacustrine complex.

Seam 2 is the middle master coal seam in the project area. It ranges in thickness from 0.70 – 2.72m including clastics, and 0.63 – 2.28m (excluding clastic partings).

Seam 3 is the lowest seam in the minable stratigraphic sequence (Figure 4-3). It ranges in thickness from 0.82 – 4.39m including clastics, and 0.78m at the edge of the basin to 3.18m in the depocentre (i.e. excluding clastic partings). During the deposition of the precursor of Seam 3 the depositional system reached the most favorable conditions for peat accumulation and preservation.

Figure 4-4: Seam 3 Exposed in Incline Emergency Chamber

4.7 Coal Quality

The coal was studied during the inspection of the Huanghuashan underground coal mine. The coal is black in colour and dull with abundant bright vitrinite-rich bands (around 40%), as such, typical of semi-anthracite coal. Clastic partings, ranging from carbonaceous mudstone to fine to medium-grained sandstone, are common (Figure 4-4). All seams are intruded. The felsic sill in Seam 3 was studied and sampled during the underground mine inspection.

The Huanghuashan mine will produce a high ash, medium sulphur, low phosphor, medium-high energy coal of semi-anthracite to anthracie rank (see Table 4-2) suitable for the Chinese domestic market. The coal is sold unwashed for the domestic market. The current market price at pit for this coal is approximately RMB250 – 260/tonne in Inner Mongolia.

The coal quality of each seam varies across the lease as well as from seam to seam. The typical quality parameters of each seam is summarised in Table 4-2.

The coal seams are characterized by the following characteristics:

- Maximum coal thickness of 4.39m
- High ash content: 25.04 – 45.54% (clastic partings up to 1.02m thick)
- Middle sulphur content: 1.39 – 2.50%
- Low phosphor
- Moisture of 0.79 – 5.51%
- Middle – high calorific value: 19.04 – 26.28 MJ/kg

No phosphor data was available for the study area; however, the mining company confirmed low phosphor values for the Huanghuashan area.

Table 4-2: Huanghuashan Seam Characteristics

Coal	Coal Thickness	Type	Industrial Analysis (%)				Caloric Value	
Seam	(m)		Moisture	Ash	Volatiles	Sulphur	Qb d%	Qb% daf
1	0.80-2.33	Unwashed	1.02-5.51	25.04-40.10	4.30-26.73	1.39-2.5	20.07-26.28	34.46-35.33
2	0.70-2.72	Unwashed	1.07-2.48	26.28-39.26	5.17-27.14	1.39-2.5	20.02-24.45	34.65-35.75
3	0.82-4.39	Unwashed	0.79-5.13	38.32-45.54	3.73-22.63	1.39-2.5	19.04-24.75	33.84-37.19

* *Qb d%: Calorific value: air-dried basis; Qb% daf: Calorific value: dry-ash-free basis*

The interburden between the three coal seams varies from 8 to 15m and is generally characterized by competent coarse-grained quartz-rich sandstone. These sediments are fresh and competent, requiring blasting prior to removal.

Relative Density data shows average values of 1.60gm/cc for all seams. Coal samples were analysed in the laboratory of the Institute of the Coalfield Geological Bureau, Inner Mongolia, which is certified by the Chinese Government.

4.8 Resource Estimation

There have been two phases of drilling at Huanghuashan, each having different levels of reliability in terms of seam tonnage and coal quality.

1. The first drilling campaign was conducted by the 102nd Brigade of the Coalfield Geological Bureau from the Jilin Province from April 1967 to June, 1970. A total of 52 boreholes were drilled along 13 grid lines. The boreholes were spaced 0.1 – 2.8km apart along the lines. A total of 26,478.13 metres were drilled. 20 of the holes, representing 4877,02m, were drilled within the mining lease and the rest within the exploration area. A geological survey report was submitted in September 1970. The resource of the coal was audited by the government.

2. The second drilling program was conducted from January 1977 to April 1978 by the 472nd Brigade of the Coalfield Geological Bureau, Jilin Province. During this campaign a total of 15 holes were drilled, with a total length of 3557.93m, within a 4.2km^2 large area. Subsequently a report with new resource estimates was submitted.

The drilling in the 1960's was performed by the Chinese Central Government using NQ core size drilling equipment. These boreholes were most probably characterized by a core recovery rate greater than 75% but less than 95%, and are therefore considered to be unreliable in terms of coal thickness and coal quality.

The mine manager and coal geologists at Huanghuashan were unable to produce any copies of the boreholes, cross-sections or geophysical logs, as the records appeared to have been lost.

In terms of reliable data, the boreholes of the 1960's and 1970's are regarded as unreliable data points for use in the estimation of Coal Resources and should therefore be used with caution when determining the Resource Categorization.

One other factor needs to be noted in terms of Resource estimation – the Huanghuashan mining area is characterized by abundant sills and dikes. All three seams are intruded. Given the limited drillhole data the actual extent and magnitude of the intrusions could be more substantial than previously thought. The effect on the resource calculations could also be substantial in terms of uneconomical baked coal.

The latest Coal Resource estimate for the Huanghuashan coal mine, was conducted in February 2004. It was completed by the 472nd Brigade of the Coalfield Geological Bureau. Detailed resource estimates of the three coal seams were defined in the report. This report was provided to SRK.

The parameters used to estimate the Coal Reserve are as follows:

- Minimum coal seam thickness of 1.0m;
- Maximum ash content of 40% (air dried);
- Maximum sulphur content of 3%;
- Tonnage is calculated using coal density only and does not include partings;
- Partings greater than 10cm within a coal seam have been excluded from the thickness used to estimate the Coal Resources;
- For areas where no coal was found or where coal is oxidised, the resource estimate projects coal to half-way between drill holes;
- For known faults with 10m throw or greater, a zone of 50m either side of the fault will be down-graded to the next category.

Coal Resource categories are based on drill hole spacing as shown in Table 4-3.

Table 4-3: Drillhole Spacing for Coal Reserve Categories

Coal Resource Category	**A**	**B**	**C**
Maximum drill spacing (m)	500	1000	>1000

The Coal Resource published by the 472nd Brigade of the Huanghuashan Coal Mine is shown in Table 4-4.

Table 4-4: Huanghuashan Published Resources in Accordance with Chinese Classification

	Category		**Total**
Coal Seam	**C (333)**	**D (334)**	(Mt)
1	1.34	0.38	1.72
2	3.21	0.00	3.21
3	3.60	0.80	4.40
Total	**8.15**	**1.18**	**9.33**

Table 4-5: Published Total Coal Resources for the Entire Huanghuashan Area in Accordance with Chinese Classification

Area	Category		Sub-total
	C + D	Unclassified	(Mt)
Mine	9.33		9.33
Exploration	39.95	65.75	105.7
Total	**49.28**	**65.75**	**115.03**

SRK has prepared the following Resource table for the Huanghuashan coal mine area (Table 4-6) in accordance with the 2004 JORC Code.

Table 4-6: Huanghuashan Coal Resources in Accordance with Australian JORC Code

Seam	JORC Coal Resource (Mt)			
	Measured	Indicated	Inferred	Total
1	0	0	1.72	1.72
2	0	0	3.21	3.21
3	0	0	4.40	4.40
Total	**0**	**0**	**9.33**	**9.33**

SRK has reviewed the resource estimates based on the data provided by Kiu Hung.

It was noticed that resource block maps of all three seams do not always respect parameters stated above as in case of borehole 55 (0.73m – Seam 1) and 55 (0.63m – Seam 2), borehole 19 (0.98m – Seam 1), borehole 40 (0.78m – Seam 3) and borehole 19 (0.98m – Seam 1) and borehole 19 (0.99m – Seam 2). In addition to that, in boreholes 41 (Seam 2) and 20 (Seam 3) no seam floor data are available on the maps. Thickness value is missing on the map for borehole 34 (Seam 2). Therefore the coal resource could be classified as an inferred resource only.

The 50m pillar along the known faults F6 and F9 was not respected in the presented resource maps.

No coal quality data related to the boreholes are available.

JORC states that Inferred Mineral Resources is part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity.

It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which may be limited or of uncertain quality and reliability.

It has been observed by SRK personnel that coal along intrusive contacts is coked. In this context an average thickness of 2cm along each intrusive contact has been excluded from the resource.

With respect to geological setting the parameters for estimating the Coal Resource are as follows:

- Minimum coal seam thickness of 0.6m.

- Tonnage is calculated using coal density only and does not include partings.

- Partings greater than marked in available resource map plus 2cm of coal rim along partings have been excluded from the thickness used to estimate the Coal Resources.

- For areas where no coal was found or where coal is oxidised, the boundary of such areas were drawn based on the interpretation of the geological setting, and where not possible the reserve estimate projects coal to half-way points between drill holes.

- For known faults with a 10m throw or greater, a zone of 50m on both side of the fault will be excluded from estimate.

Table 4-7: Reviewed Huanghuashan Coal Resources in Accordance with Australian JORC Code

	JORC Coal Resource (Mt)			
Seam	**Measured**	**Indicated**	**Inferred**	**Total**
1	0	0	1.28	1.28
2	0	0	2.67	2.67
3	0	0	3.90	3.90
Total	**0**	**0**	**7.85**	**7.85**

In summary, the published coal resources by the 472nd Exploration Brigade and SRK's review of the coal resources in the Huanghuashan mining area differ by 1.45Mt. This is due to the fact that the 472nd Exploration Brigade did not accurately discard intrusive-affected coal, as well as coal in the major fault zones, from the resource.

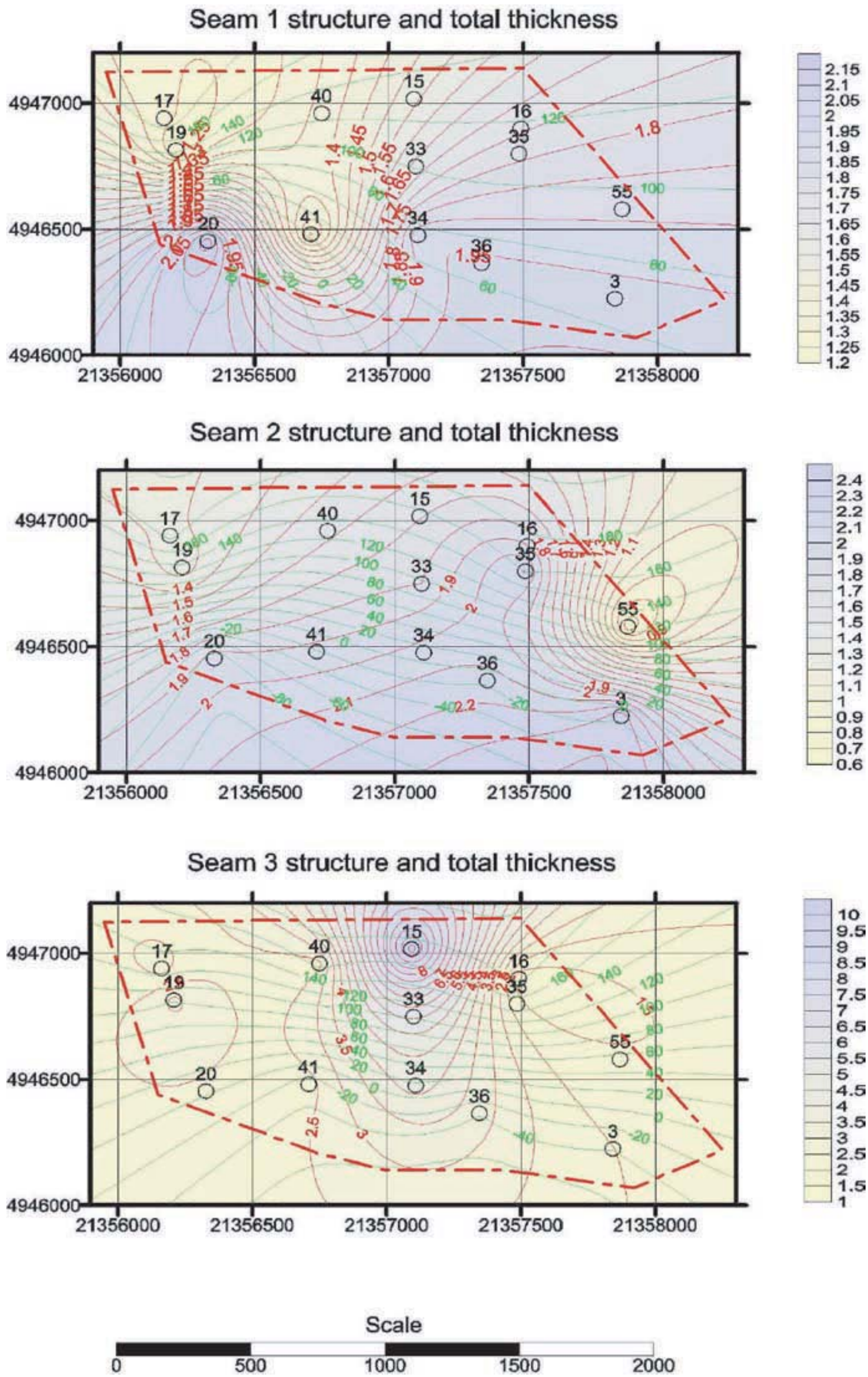

Figure 4-5: Isopachs of Seam 1 – 3 Coal Thickness

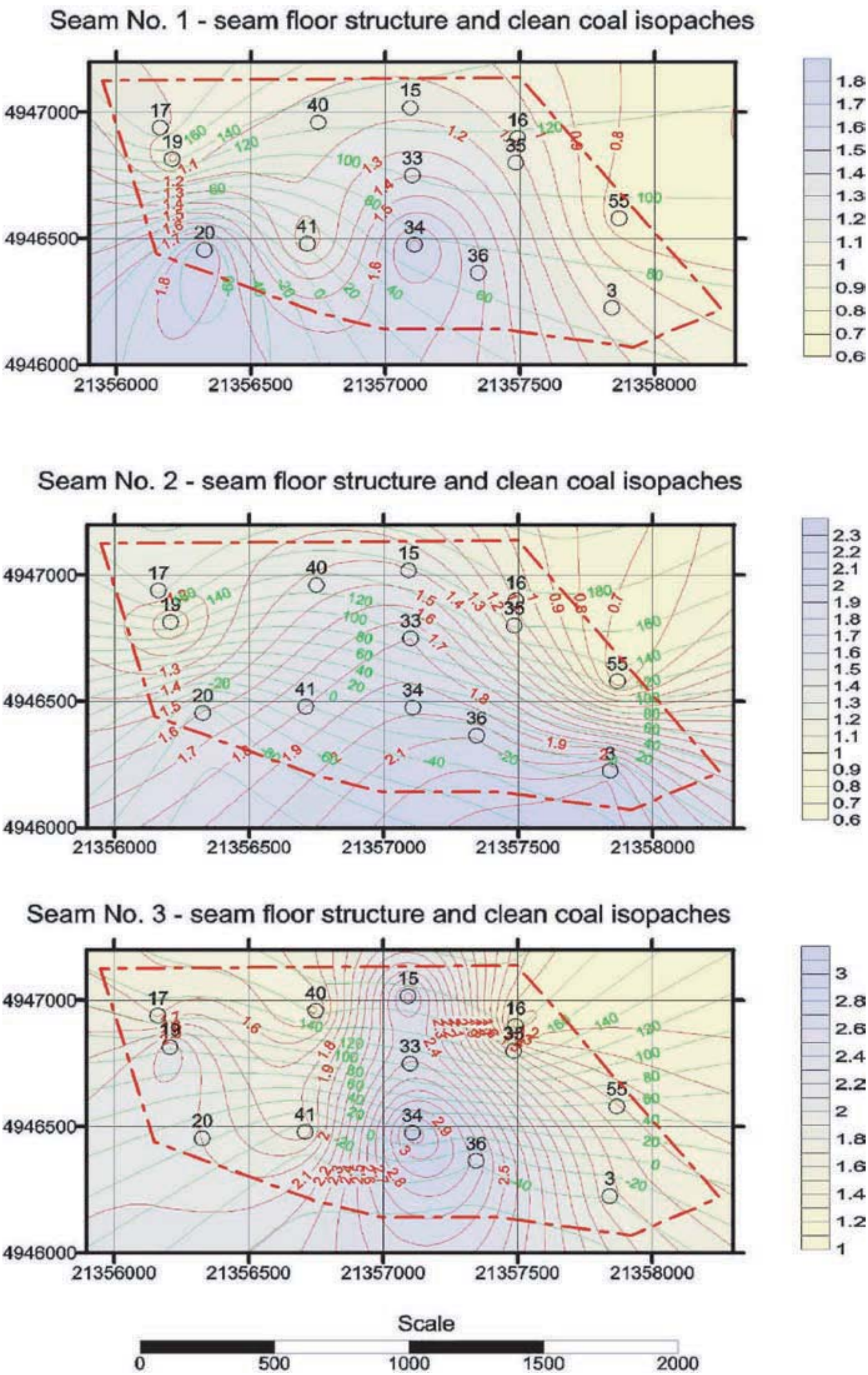

Figure 4-6: Seam 1 – 3 Coal Seam Floor Structures

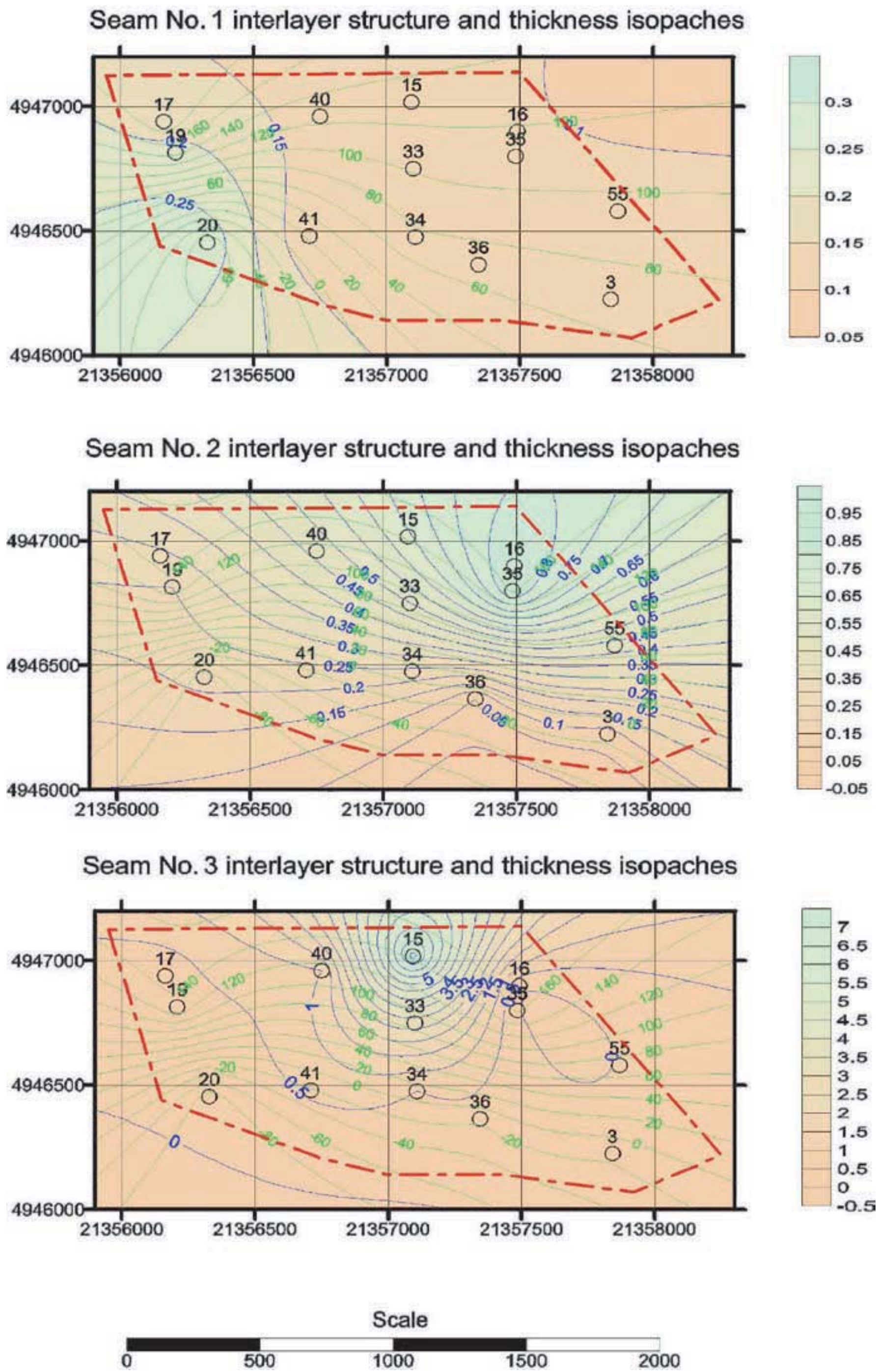

Figure 4-7: Seam 1 – 3 Interlayer Isopachs

5 MINING ASSESSMENT

5.1 Introduction and Mining Licenses

The Huanghuashan underground coal mine is located in the town of Huanghuashan, Zalute Banner, Inner Mongolia. The area is situated some 30km west of the city of Lubei and 195 kilometres (km) northwest of Tongliao. The area around the mine is characterized by a significant fault (F9). Shaft No. 2 is located to the west of this fault. Presently, the area is owned by Tongliao Hengyuan Mining Co Ltd. The Company commenced the construction and development of the mine in January 2005.

Manual retreating longwall mining with caving is planned for producing coal from the three available coal seams. The quality of the coal is lean – smokeless coal with high ash, mid-sulphur, and high heating capacity. As of date, two longwall faces have been equipped for production in seam 3. Further construction to open up the full property will be taken up once the funds are available.

Surface infrastructure such as offices, attendance rooms, approach road etc is yet to be fully completed. Plans for these facilities have been prepared and included in the capital cost. Mining plans for the production of 300,000 tonnes/annum, of lean-smokeless coal (>3000Kcal/kg).

The coal is proposed to be fully sold to power plants and steel plants in Inner Mongolia and North-eastern provinces. No processing plant has been proposed as power plant specification of heat value >3000 Kcal/kg is expected to be satisfactorily met by the coal available in the property. The company is yet to sign any sale agreement with power plants and steel plants in Inner Mongolia and Northeastern provinces. Since 2006, mine construction was suspended for want of fund. Now, the company proposes to apply for prospecting licence for 80 km^2 in addition to the present mining lease of about 1.7km^2.

Figure 5-1: Infrastructure around the Huanghuashan Incline

No. 1 shaft (west of F9) and No. 2 shaft (east of F9) areas are divided by the significant F9 fault. The construction of No. 1 shaft is earlier and the mining action took place in March 1970, and a pair of shaft had been completed by the 1984. It was a state-owned business in local area and having a designed capacity of 60000t/a. It adopted panel incline development and working continued for 17 years. Production was suspended due to high ash content in coal, the poor market and high cost of production.

No. 2 shaft area a pair of vertical shaft was in process of construction in 1992 and invested by private person, and its name was Zalute Banner Tafa Coal Mine. The annual production capacity of the mine was 30000t/a, and the scope of excavation was limited to the east of X survey route (exclude this line). The construction of shafts was suspended due to flooding of the shaft in 1997.

The Tongliao railway line is located 1.5km east of the Huanghuashan coal mine.

The area has undergone preliminary exploration drilling in 1969 and subsequently a small coal mine was established in 1994. The mine was shut down in October 1997 after mining out in the order of 10,000 tons of coal. Water is abundant in the district and no license is required.

The construction of the Huanghuashan Coal Mine is considered to be substantially completed but additional works may need to be performed to ensure the future operations of the coal mine will be made in accordance with the requirements of the environmental and safety regulations.

The Bayanhushuo Project is considered to be at the general survey stage of exploration at this point in time. Consequently, there is insufficient data to determine production policy for the coal project

The semi-anthracite is well suited for the local market, with a current market price at pit of approximately RMB250-260/ton (pre-washing) and RMB550-650 (post-washing).

Figure 5-2: Overview of Huanghuashan Coal Mine

5.2 Mining Tenements

Tongliao Hengyuan Mining Company Ltd. is presently licenced to mine at the Huanghuashan underground mine. Mining licence details are provided in Table 5-1. The mining licence was issued by the Ministry of Land and Resources.

Table 5-1: Mining Licence Details

Mine	Mining Licence No.	Mining Area (km^2)	Date Issued	Date for Renewal
Huanghuashan UG	1500000720617	1.7099	Nov 2007	Nov 2010

The mining tenement covers a total area of 1.7099 square km (km^2) and is delineated by the coordinates in Table 5-2.

Table 5-2: Tenement Coordinates for Huanghuashan Mining Area

No. of Flex Points	Geodetic Coordinate		Plane Coordinate	
	E	N	Y	X
1	NA	NA	21,355,950	4,947,125
2	NA	NA	21,356,150	4,946,440
3	NA	NA	21,356,740	4,946,209
4	NA	NA	21,357,000	4,946,140
5	NA	NA	21,357,440	4,946,140
6	NA	NA	21,357,920	4,946,070
7	NA	NA	21,358,250	4,946,220
8	NA	NA	21,357,500	4,947,138

The mining tenement is delimited by an exploration tenement which is 14.36km in length (north-south) and 10.92km wide (east-west), and covers a total area of 144.87 square km (km^2) and is delineated by the coordinates in Table 5-3. The coal mine is located in the south-western sector of the exploration permit. ***It is highlighted here that the license for the exploration area has not been presented to SRK.***

Huanghuashan's production policy is to use its own mine resources to engage in mining and also has a policy to mine economically exploitable coal according to the rights provided by the mining licence.

Table 5-3: Tenement Coordinates for Huanghuashan Exploration Area

No. of Flex Points	Geodetic Coordinate		Plane Coordinate	
	E	N	Y	X
1	121°08’45”	44°34’45”	NA	NA
2	121°17’00”	44°34’45”	NA	NA
3	121°17’00”	44°42’30”	NA	NA
4	121°11’30”	44°42’30”	NA	NA
5	121°11’30”	44°40’45”	NA	NA
6	121°08’45”	44°40’45”	NA	NA

The Tongliao Hengyuan Mining Company Ltd will pay mining royalties and taxes according to the Mineral Resources Law.

5.3 Mine Layout

The topography in Mine area is flat and mainly the grassland with sparse residential spots and 1.5km to Zalute Station on Tong-Huo Railway, and the communication is convenient and ground water is abundant, and the water table is 15~20 meter underground and should be able to meet the water demand for industry and people. The electric power is abundant and only 1km away. A 35KV power substation is located in Huanghuashan town with an outlet of 10KV, and power for industry is thus very convenient.

The Huanghuashan mining lease area is 1.7km^2 with a general elevation of +240m msl. The length of the mining lease is 2.25km and the width is 1km, with a depth of exploitation of coal seams from +200m to -170m. The general inclination of the coal seams is about 21. Three coal seams (i.e Seam 1, Seam 2 and Seam 3), of varying thickness (i.e. from 1.44m Seam 1 to 2.17m Seam 3), occurs within the area. The inter-burden between Seam 1 and 2 varies from 8 – 15m and that between seam 2 and 3 from 8 to 20m. Roof rocks generally comprise of competent coarse- to fine-grained sandstone. The property is bounded by major faults as stated in the geological section. The roof rocks of all the seams are crisscrossed by cracks and fissures. Water seepage through these cracks and fissures were observed during the site visit. The Rock Mass Rating (RMR) of the immediate sandstone roof of all seams appear to be ‘fair to poor’ due to these cracks.

The approach to coal seams has been planned on panel incline technique. All the three coal seams has been approached from a pair of inclines in the centre of the property running approximately along Seam 3 at true dip in a N-S direction. Inclination of decline is 21.460. The total planned length of incline up to the southern boundary is 924m starting from +238 above msl. So far 420m has been driven in both inclines. Laterals have been driven from both the inclines at 33m vertical intervals starting from +170m level to intersect Seam 1 and Seam 2. Levels are driven on Eastern and western sides at each horizon from seam intersection points to reach the boundary on both sides. Levels are then joined at each boundary by driving a gallery along true dip of seam. Thus 80m long dip-rise longwall face is formed between two adjacent levels. Panel length depends on the distance of boundary from lateral intersection point and will vary from 500 – 600m. Presently two faces in Seam 3 has been equipped for production, one between +170m and +137m and one between the +137m and +104m horizon.

5.4 Mining Methods

Longwall faces will be operated by manual drilling and blasting. Face to be supported by link bars on individual steel friction props. Due to hardness of coal pneumatic drilling is proposed. 8m length of face will be blasted from bottom gate in one phase getting an advance of 1m. Link bars will be extended. After clearing of blasted coal friction prop will be placed under extended link bar. Most of the blasted coal will fall on the steel slide laid along face. Balance will be loaded on to the slide manually. The Phase will be repeated towards top gate till the total length of the face is advanced by 1m. Friction props at goaf edge will be boarded up to avoid caved roof rock spilling over to the face.

Sequence of extraction of seams will be from top to bottom i.e. for any area, the upper seam will be liquidated first before area in lower seam, vertically below it, is worked. This sequence needs to be strictly maintained to avoid disturbance of strata around upper seam due to fall in lower seam panel vertically below it.

It is planned to operate two longwall faces, at any time, in order to produce 300,000 tonnes/annum. One face will be kept developed and furnished to cater for emergency. Each longwall face is expected to yield about 165 tonnes/shift. Mine will be worked on three shift basis to produce 300,000 t/annum. Expected recovery of coal from each panel is 80-85%. Overall recovery of the reserve will be about 55%.

The total geological resource is 7.85 million tonnes while recoverable resource after loss due to protective pillars and 90% panel recovery is 4.31 million tones. At full production level the life of the mine will be approximately 14 years. Significantly, there is scope for increasing the coal resources after carrying out exploration drilling around the lease area.

5.5 Coal Wining

Production of coal from the longwall face is yet to start. Mining plan is prepared by Coal and Carbon Technology Institute of Inner Mongolia. Coal wining will be done by drilling and blasting. Due to hardness of coal pneumatic drilling is proposed. 8m length of face will be blasted from bottom gate in one phase getting an advance of 1m. Link bars will be extended. After clearing of blasted coal friction prop will be placed under extended link bar. Most of the blasted coal will fall on the steel slide laid along face. Balance will be loaded on to the slide manually. The Phase will be repeated towards top gate till the total length of the face is advanced by 1m. Friction props at goaf edge will be boarded up to avoid caved roof rock spilling over to the face.

5.5.1 Sequence of Face Advance

In general, faces, in any one seam, at upper horizon will be kept ahead of the face at lower horizon by about 40m. A series of 10m x 50m pillars along bottom gate of the upper horizon will be left to act as barrier between the caved goaf of upper face and lower face.

In case of regular fall behind the face, the system is expected to be successful. It is therefore necessary to monitor the stress induced due to face advance on regular basis and if necessary to induce the fall by blasting of roof or other methods so that the stress is not thrown upon the face at lower horizon. It is recommended that stress monitors are put at goaf edge line to monitor stress level and some sort of alarm is sounded to inform about the undue concentration of stress level on the supports.

5.5.2 Sequence of Extraction of Seams

Sequence will be from top to bottom i.e. for any area; upper seam will be liquidated first before area in lower seam, vertically below it, is worked. Therefore, seam I between any two laterals will be worked first before seam II between same laterals is worked. It is planned to operate two longwall faces, at any time, to produce 300,000 t/pa. One face will be kept developed and furnished to cater for emergency.

In this mine, longwall faces have already been developed and equipped in Seam 3. These faces are not supposed to be worked till seam 2 and Seam 1 directly above it are worked out. Otherwise, due to caving of the roof of seam 3 over the longwall faces, mineability of the area in seam 2 and seam 1, directly above the worked out faces of seam 3, is likely to be lost. To prevent loss of valuable coal of seam 2 and seam 1, it is recommended that further development is done till faces are developed in seam 1. Production should start only from the faces at Seam 1 and then downwards to Seam 3.

5.6 Support

As observed at the mine site and from geological data, RMR of roof rocks varies from poor to fair, local falls are expected to occur after unsupported span behind the face exceeds about 20m as per experience of mine operators. Based on the information received at site, no study of RMR or RQD and also cavability characteristics of the roof rock has been made. SRK is concerned about the adequacy of support and regular caving of roof behind face.

It is recommended that a thorough study of behaviour of roof rock under stress condition should be made and support density, goaf edge support etc is designed based on the study. There is a risk element on the adequacy of support of face, particularly as the mining is taken up at deeper horizons.

Table 5-4: Type of Support in the Huanghuashan Coal Mine

Type of support	Location	Material	Spacing	Other
Concrete arch	Decline	RCC 1: 2:4	continuous	Clear area 2.7X2.6m
Half ‘A’ type cross bar on prop	Laterals & levels	150mm dia wooden logs	0.8m – 1m	Clear area 2.5X2.5m
Steel Friction prop	Face & goaf edge	HZWA-2000	0.8m between lines and 1m between rows	
Link bars	Over props	HDZA-1000	Extended up to face	Support density 626.2 KN

5.7 Mine Transport

Blasted coal slides on steel slide laid alongside face and falls on chain conveyor laid in bottom gate road. This in turn discharges on to a small inclined shaft between bottom gate and lateral (i.e. branched from main lateral) where mine cars are directly loaded. Area below the inclined shaft is widened to accommodate a double line siding for keeping two rows of 5 cars. These cars are moved by a battery powered locomotive and attached to winch rope at the mouth of the lateral.

Once the rake is loaded, they are drawn by a direct haulage installed at the surface and then sent to the surface dumping point for getting unloaded. A total of 64 side dump mine cars are in operation. They run on 600mm gauge rail (15kg/m) tracks. Winch at surface deals with the production from all faces being worked on a given day through the incline.

Material transport will be done with the help of haulage and flat trucks. However, men have to reach the worksite on foot. Steepness of the inclines makes travel on foot tiresome. Provision of a manriding system by haulage may increase productivity substantially.

Coal from dumping points will be loaded on to trucks and transported to Huanghuasan Railway Siding 1.5km away. The road to siding and railway has adequate capacity to transport the targeted dispatch from the mine.

Table 5-5: Panel Equipments in the Huanghuashan Coal Mine

Description	Type of equipment	Capacity	No. installed	Other
Winch (surface)	JK-20/30	240KW	1	Draws a rake of 5 tubs at a time
	JR136-6240KW 380V electric motor			
Winch	JD-11.4		5	For movement of material trolleys
Scraper conveyor	SGB-620/40	40KW	2	At bottom gate of each panel
Reversed loader	Type SZB-739/40	40KW	2	
Pneumatic drill for rock				
Air compressor			3	
Blast trigger	MFB-100		2	
Auxiliary forcing fan		5.5/11KW	7	for development

5.8 Ventilation

Ventilation requirement of 1238.16m^3/min at 82.68mm wg has been calculated by the Coal and Carbon Technology Institute of Inner Mongolia, as per Regulation for ventilation of underground coal mines in China. During the site visit ventilation at face was found to be adequate although not measured. The ventilation is effected by a pair of main exhaust fans BDK54-6-No.13 with 30KW motors, installed in parallel on western decline mouth. Eastern decline acts as intake. Ascentional ventilation is practised for ventilating the working face. Heat was not experienced, however the effect of operating equipment could not be assessed as the mine was not in operation. Due to cold climate at surface, steam from surface boiler is pumped into working areas of the mine to curb the extremely cold conditions within the mine during winter. No problem of ventilation is envisaged for working the present property with the existing ventilation system.

5.9 Water Handling

From the hydrogeological study of the mine it is reported that water seepage through strata gradually decreases with depth. Main passage of water from water bearing strata is through cracks and fissures within the strata. Water rates has been assumed to be max. 100 m^3/hr. However, during the site visit water seepage in the developed area was found to be minimal. Water handling system for maximum water rates of 100 m^3/hr.

Table 5-6: Water Handling Equipments in the Huanghuashan Coal Mine

Description	Type of equipment	Capacity	Other
Sump		400m^3	Temporary At + 138m, finally at +38m level
Pump	D85-45×6 with 110Kw motor–3 nos	85m^3/h, 200m head	One operating, one standby, one under maintenance
Pipe range	HR pipe	133X4mm dia	Two ranges, one operating one stand bye

Mine water is pumped out to surface and allowed to flow on the ground without any treatment. The history of flooding of shafts being constructed within the shaft 2 area calls for further hydrogeological study of the area particularly near faults to determine permeability of rocks before working the deeper areas. This is particularly important to understand the water problem, if any, once caving of strata due to mining starts and cracks and fissures gets connected with the fault planes. In whichever case subsidence at surface needs to be monitored and action to be taken to drain out the subsided areas at surface.

5.10 Possible Dangers During Mining

5.10.1 Gas

The in situ methane content in the coal seams has not been measured. From the experience of the old mines and construction of the current mine, it is construed that gas seepage into the ventilation stream is negligible. The coal is also low in VM (9-10%). No risk of gas accumulations and related dangers is envisaged during mining.

5.10.2 Dust

Dust generation during drilling and blasting will be considerable. It is proposed to use wet drilling and periodical water spraying in the mine. Seepages through the roof rock will effectively suppress the dispersion of dust in the mine. However, no provision of stone dusting has been made for the drier areas.

5.10.3 Fire

The coal being of low VM and high maturity does not pose any risk of spontaneous heating either in situ or in the dumps.

5.10.4 Water inrush

In view of the sudden inrush of water during sinking of the shaft in the western part of the shaft 2 area, it is advisable to take proper precaution against inrush of water well before advancing to that side.

5.11 Men and Material Transport

Material transport will be done with help of haulage and flat trucks. However men have to reach the worksite on foot. Steepness of the declines makes travel on foot tiresome. Provision of man riding system by haulage may increase productivity substantially.

5.11.1 Surface Transport

Coal from dumping point will be loaded on to trucks and transported to Huanghuashan Railway Siding 1.5km away. The road to siding and Railways has adequate capacity to transport the targeted despatch from the mine.

5.12 Infrastructure

A double loop power supply system has been adopted. One 10KV overhead transmission line from power substation of Huanghuashan Town is the main loop; and the standby loop by second 10KV O/H line is from the power substation of Lubei Town. Model SC7-315 and S9-400 transformers are used for surface and underground respectively. The voltage for surface and underground electric equipment is 380V, and 220V for lighting. It is planned to supply 10KV line directly to underground substation at +138m level where it will be stepped down to 380V. Double loops power supply is adopted for the surface winch and main ventilator. The power supply to site was reported as very reliable with minimum negative impact to the mining operation:

- Total installed capacity of equipment: 987KW
- Total capacity of equipment in working: 705KW
- Power consumption of coal/t: 13.01kWh/t

5.12.1 Water Supply

The estimated water requirement is 110.2m^3/d during operation of the mine at full capacity. In which, the requirement at surface is 30.26m^3/d and 79.94m^3/d will be used for underground fire-fighting and dust suppression. Ø106×5 seamless steel pipes are to be used for fire-fighting system in the shaft, and the water is led from fire-fighting water pond.

Water is being supplied from bore well put for the purpose within the lease area. Two borehole pumps have been installed in the bore well. There is no provision for treatment of water before supply to the mine.

5.12.2 Processing Plant

There are no current plans for setting up a processing plant for ROM coal. But a few clastic bands and igneous intrusions were observed within the coal seams which cannot be separated by selective mining. The admixture of impurities may vitiate the quality of the product considerably and thereby affecting the profitability of the venture.

Surface structures at the mine site include:

- Winch housing
- Power distribution room
- Fan room
- Coal storage yard for output of 5 days
- Machine repair shop
- Timber and support yard
- Store house for material, equipment and lubricants
- 600mm track connecting the yards and repair shop with surface winch
- Administrative office, employees living area, dining hall, bath house
- Lamp room
- Boiler house for heating of living rooms, offices and underground working areas

Except the winch house, fan room and boiler house, all other facilities along with road network are in the process of construction.

5.12.3 Communication and Monitoring System

The administrative communication of the Mine depends on the city telephone network. For communication in production dispatch, it is proposed to install one set of Model DDK-3-30 dispatch telephone exchange with connection to all important points. No communication system presently exists.

In terms of security monitoring and control systems in the mine; one set of KJ19 safety monitoring system for mine shall be installed in the mine although no such monitoring system exists at this time.

5.12.4 Human Resources

The mine is planned to be worked with multi-skilled coal miners on all-man-all-job basis. A total of 25 miners/shift will be working in each long wall district. For production of 300,000 tonnes/annum, 56 miners/shift or 168 miners/day will be required. Including the maintenance crew, construction workers and surface support workers, 264 registered persons will work in the mine. Designed productivity at underground will be about 5.95 t/man shift and about 3.74 t/man shift for the total mine.

Table 5-7: Human Resource Estimates for the Huanghuashan Coal Mine

No.	Labor category	Number of persons turned out			Subtotal	Registration coefficient	No. of registered staff
		I	II	III			
I	Production workers	74	74	72	220		243
1	Underground LW face workers	56	56	56	168	1.1	185
2	Development workers	6	6	6	18		20
3	Support workers	4	4	4	12		13
4	Ground workers	8	8	6	22		25
II	Mine supervisors	4	3	2	9		10
	Total number of production personnel	78	77	74	229		253
III	Management personnel	6	3	1	10		11
I+II+III	Grand total	73	70	64	207		264

Table 5-8: Salient Technical Index for the Huanghuashan Coal Mine

Seam No.	Items	Unit	Index
1	Lease area	Sq.km	1.71
2	No. of seams	No.	3
3	Quality of coal	%	Med ash, med. sulpher
4	Incline angle of coal seam	Degree	15-23
5	Reserve in table	10000t	523.7
6	Recovery	%	60
7	designed capacity in production	10000t/a	30
8	year of service	Year	10.5
9	mode of development		Panel incline
10	Method of mining		Retreating Longwall with cavein
11	In mine transport		Chain conveyor to tub & haulage
12	Surface transport		Truck to railway
13	Coal winning		Drilling& blasting
14	Face support		Link bar on individual steel friction prop
15	Face length	m	80
16	Production per face	T/shift	165
17	Water make in mine	m3/h	50-100
18	Gas content	m3/t	negligible
19	No. of miners in production	Hd/shift	56
20	Total manpower	Hd/day	264
21	Productivity	T/day	3.74

5.13 Mine Safety

The safety of the Huanghuashan Mine appears to be of average standard compared to Chinese mining standards.

5.14 SRK Assessment of Areas of Concern

5.14.1 Support

Support density at coal face should be based on RMR of the roof rock at least up to 10m above the seam. Cavability of unsupported roof rock should be determined to avoid stressing the goaf line supports.

5.14.2 Processing

Although general quality of the coal appears to be acceptable by power plants, it is important to note that intrusions observed in the coal seam may vitiate the quality of the product. Provision for separation of foreign materials in Run-of-mine coal should be made to improve the quality of the final product

5.14.3 Water inrush

Sudden inrush of water during construction of shaft at western boundary, which was abandoned after the incident in 1997, calls for utmost precaution against such incidents during advance of development and mining to or near this area.

5.14.4 Training

On the mining plan, no proposal for providing training to workers was observed. The mine will require arranging for regular safety and other occupational training to its employees and contract labourers.

6 OCCUPATIONAL HEALTH AND SAFETY

SRK did not conduct a full OHS inspection at the Huanguashan mine site. However, sub-standard safety practices compared to other international operations existed at the mine site. To illustrate this, a list of concerns is listed here:

- No site inductions at the mine site were conducted for SRK personnel at the underground mine;
- Usage of personal protective equipment (PPE) is comparatively sub-standard (e.g. safety glasses, ear protection, dust masks or safety boots are not worn);
- No sign-in or sign-out was requested from SRK personnel;
- No self-rescuers provided;
- Positive lock-out procedures were not applied;
- No hazard signs posing possible risks to employees and visitors were displayed at the mine.

7 INFRASTRUCTURE

7.1 Road Access

Access to the region is excellent. Flights to Tongliao are provided from a number of cities in China. Vehicular access to the area is via a four-lane highway from Tongliao to Lubei (195km), then a sealed road to the Huanghuashan underground mine (30km to the west).

7.2 Electrical Power Supply

Double loops power supply system has been adopted. One 10KV overhead transmission line from power substation of Huanghuashan Town is the main loop; and the standby loop by second 10KV O/H line is from the power substation of Lubei Town. Model SC7-315and S9-400 transformers are used for surface and underground respectively. The voltage for surface and underground electric equipment is 380V, and 220V for lighting. It is planned to supply 10KV line directly to underground substation at +138m level where it will be stepped down to 380V. Double loops power supply is adopted for the surface winch and main ventilator. The power supply to site was reported as very reliable with minimum negative impact to the mining operation:

- Total installed capacity of equipment: 987KW
- Total capacity of equipment in working: 705KW
- Power consumption of coal /ton: 13.01kwh/t

7.3 Water Supply

The estimated water requirement is 110.2m^3/d during operation of the mine at full capacity. In which, the requirement at surface is 30.26m^3/d and 79.94m^3/d will be used for underground fire-fighting and dust suppression. Ø106×5 seamless steel pipes are to be used for fire-fighting system in the shaft, and the water is led from fire-fighting water pond.

Water is being supplied from bore well put for the purpose within the lease area. Two borehole pumps have been installed in the bore well. There is no provision for treatment of water before supply to the mine.

7.4 Accommodation

The Huanghuashan coal mine is located in the town of Huanghuashan, and only 30 km west of the regional city of Lubei, where most employees and contractors will be recruited. Some of the employees will sleep at the dormitories at the coal mine, however, most employees will sleep in their own houses in Huanghuashan town.

8 ENVIRONMENTAL ASSESSMENT

8.1 Environmental Review Objective

The objective of this environmental review is to:

- Identify and/or verify the existing environmental liabilities and risks of Tongliao Hengyuan Mining Co. Ltd.'s (Hengyuan) Huanghuashan Coal Mine, Zalute Banner, Tongliao City, Inner Mongolia, China.

- Where appropriate, make comment and provide advice on potential prevention, management and remediation measures for the identified existing environmental liabilities.

8.2 Environmental Review Scope, Standards & Methodology

Environmental conformance for the Huanghuashan Coal Mine project was determined through the review of the project's environmental management performance against:

- Chinese National environmental regulatory requirements.

- World Bank/International Finance Corporation (IFC) environmental standards and guidelines.

- Internationally recognised environmental management practices.

The methodology that was applied for this environmental review of the Huanghuashan Project comprised a combination of document review, site visit and interviews with Company technical representatives. The site visit was undertaken from the 10th to the 13th of October, 2007.

8.3 Summary of Environmental Aspects and Management

The Huanghuashan Coal Mine possesses the necessary Mining License, Land Use Permit, Soil and Water Conservation Plan and EIA Approvals for operation. Conditions of operation stated in the governmental approval documents while comparable to international standards of operation, do not address some issues such as waste oils, hydrocarbon storage, waste rock, etc... Environmental, cleaner production, energy efficiency and pollution prevention requirements of the Chinese Government's "Green Development" policies and directives have been considered in the project design.

The environmental technical review identified numerous environmental issues and problems as relate to the current Huanghuashan Coal mine project not following conditions for construction and operation, as stated in the governmental approvals. The operations are also not yet in compliance with Chinese Environmental laws and regulatory requirements for environmental protection.

The environmental technical review identified the following as the most significant potential environmental management liabilities that relate to operation and development of the Huanghuashan Coal mine development project:

- Surface water management and discharges (i.e. stormwater runoff & diversions).
- Groundwater management and discharges (i.e. mine dewatering not treated or collected).
- Rehabilitation of waste rock and coal stockpiles and other disturbed areas.
- Storage and handling of hazardous materials.
- Waste generation and management (industrial and domestic wastes).
- No characterization of process waste materials or gangue.
- No monitoring of waste water discharges
- Potential contaminated sites.
- Lack of a structured closure planning process.
- Lack of erosion control measures.

Of the above items, the most significant environmental risks for the Huanghuashan coal mine are associated with storage and handling of coal and gangue stockpiles. In addition, the potential for generating contaminated sites and operational closure liabilities through management of hazardous materials and general waste; also presents high environmental risks. In particular, the Huanghuashan operations have no structured process in place for undertaking contaminated sites assessment and for broader closure planning. No monitoring of discharges or the environmental quality of the receiving waters. The lack of characterization of process wastes and the potential for Acid Rock Drainage and metal leaching may also be of concern.

Appendix 2 summarises the environmental legislative background. The following sections summarise the compliance requirements, and the associated environmental management strategies, for the above significant environmental aspects.

8.4 Project Environmental Impact Assessment and Approvals

The Huanghuashan coal mine operates under Mining Licence No. 1500000510445, which covers approximately 1.7099 km^2 in the jurisdiction of Zalute Banner, Tongliao City, Inner Mongolia, PRC. This permit was granted to Tongliao Hengyuan Mining Co. Ltd., by the Inner Mongolia Bureau of State Land Resources, on the 20th of May, 2005 and is valid until May, 2010. Hengyuan Mining Co. Ltd. has stated that there are no environmental non-compliances and/or regulatory penalties issued against the above Mining Licence. Hengyuan Mining Co. Ltd. has also obtained the necessary Land Use Permit (No. 012251588) for the Huanghuashan Coal Mine project covering an area of 77,337.2m^2, valid from the 26th of November, 2004 to the 26th of November, 2034.

The Huanghuashan Coal Mining Project EIA was completed by Tongliao Research Institute of Environmental Sciences in December, 2004, and was subsequently approved for construction by the Environment Protection Bureau of Tongliao City on the 6th of January, 2005. The key approval conditions relate to the project being constructed as per location, nature, scale, construction mode and environmental protection measures stipulated in the EIA. The project must follow the principle of implementing environmental protection measures concurrently with project construction and operation.

The Huanghuashan Project Soil and Water Conservation Plan (Zha Shui Fa 2004 No. 41) was completed by the Ping'an County Water and Soil Conservation Department in August, 2006, and was subsequently approved for construction by the Bureau of Water Affairs Zalute Banner, Inner Mongolia on the 4th of November, 2004. The key approval conditions relate to the execution of the soil and water conservation plan and good project development and management through construction to production to prevent soil loss and impacts upon water resources and to protect the natural environment.

The Huanghuashan project is (at the time of this report) still in its development/construction phase and has yet to complete the final check and acceptance for the project's construction environmental compliance (i.e. yet to receive the formal final approval to operate from the Tongliao EPB).

The main Environmental requirements of the Huanghuashan EIA and Soil and Water Conservation Plan are as follows; all preventive safety measures specified in the assessment report of current safety situation of the project shall be seriously carried out. All environment control measures, water and soil conserving measurements and preventive safety measures shall be simultaneously designed, implemented and put in operation with the main works. Rehabilitation of the vegetative landscape of the mine area and dressing plant shall be properly carried out along with a greening program to build a beautiful working environment. When the project comes to an end, the pit has to be filled, and original vegetation has to be restored.

8.5 Land Disturbance and Rehabilitation

The Huanghuashan Project EIA Report does not state a total area of disturbance for the project, but the permitted project site is an area of 1.7099km^2. There was no information for review on the estimated areas disturbed due to different works and constructions at site. The project EIA though does report on the nature, impact and mitigation/management measures for land disturbances. These measures are discussed below;

Mining operation of the coal mine will occupy some grassland in the assessment area. The elimination of surface vegetation will cause area of the grassland to reduce as well as cause degeneration of the steppe. After the mine reaches to a certain service life, due to the impact of mining operation, the ground surface within the range of the coalfield will witness subsidence and deformation of different degrees. Pits resulting from surface subsidence may hold a large amount of rainwater during rainy season. After a long time, these may become bogs. This type of change in the landscape will reduce the area of the grassland, eliminate vegetation on the ground surface and change the existing manner of land utilization.

The EIA states the principal of protection against ecological impacts is to adopt proper measures to avoid, alleviate and compensate for the impact on the ecosystem. Since construction of this project will occupy a certain part of the land and make change to the land use configuration in the area, and the mining operations may cause the ground surface to collapse, all these may degrade the productivity of the regional natural system. Therefore, necessary ecosystem protection measures should be adopted, which mainly include the prevention of water loss and soil erosion as well as greening of the sites.

Management should be strengthened during construction of the project and efforts must be made to occupy as less land and destroy as less vegetation as possible. Earth excavated during the construction should be properly stored in order to minimize disturbance to the land, thus, controlling water loss and soil erosion.

Site greening measures: In the production area, shrubs and arbors should be planted to form isolating forest belts for preventing coal dust pollution and diffusion according to characteristics of the production facilities of the various types; the office and living quarters should focus on environment beautification, where hedgerows should planted in addition to provision of flower beds and planting of lawns, etc. Greening of roads should focus on planting of arbors. Suitable tree species should be chosen for mixed planting of multiple tree species, in order to form green belts along the road. Greening coefficient of the industrial ground should reach 30%.

8.6 Waste Rock and Tailings Management

Solid wastes produced during development and production of the Huanghuashan mine mainly include gangue and boiler cinder. During operation of this mine, a large amount of gangue will be produced, approximately 5.0 x 10^4 t/a. Under the State's Solid Wastes Control and Planning Principle: a combination of comprehensive utilization with reasonable disposal, with comprehensive utilization prioritized; combination of prevention with control, with prevention prioritized; strengthened management in an effort to minimize the environmental and ecological problems brought about by solid wastes.

Process gangue is mainly composed of clay, shale or sandstone mixed with unrated coal. To prevent gangue from polluting the environment, gangue should be removed to fill in the collapsed areas and ground gullies, which should then be covered with artificial soil and afforested in order to protect it from desertification, beautifying the environment and eliminating its negative impact on the environment due to spontaneous combustion of the gangue and rainwater eluviations. Storage conditions must comply with the "Standard for Pollution Control on the Storage, and Disposal Site for General Industrial Solid Wastes" (GB18599-2001).

Coal gangue is an inevitable product in the process of coal mine production, and its damages to the environment include: spontaneous combustion of gangue, land occupancy due to storage of gangue as well as pollution to the soil and surface water after rain. Therefore, proper measures must be taken to deal with these problems.

1. Effective precautionary measures such as lime grouting and loess coverage, etc. shall be given to combustible gangue heaps.

2. Recovery of contaminated and unrated coal in order to reduce combustible substances in the gangue heaps, eliminating the possibility of spontaneous combustion of the gangue heaps.

3. Comprehensive utilization of gangue according to its chemical compositions. For example, the production of building materials such as gangue bricks and cement, etc., power generation or backfill of surface collapsed area or road construction by using low-calorific fuels.

The Mine Design Plan states, the boiler cinder discharge is 1800t/a. Boiler cinder in the mining area should be utilized on a comprehensive basis as long as possible, for example, aluminium extraction or production of building materials such as cement, etc.. If it is not ready for comprehensive use, it may be used to back fill the collapses in the initial mining area.

8.7 Groundwater and Surface Water

The estimated water consumption for the mine industrial site is 110.2m^3/d, including 37.72m^3/d of daily water use, as well as 79.94m^3/d of water spray, for dust suppression in the mine. Water required for production at the industrial site will all be supplied from the 300 m^3 treated mine water pool to be provided on the industrial ground of the mine. Quantities of wastewater and sewage at the industrial site are estimated at 24.16m^3/d and 10.2m^3/h$_{max}$ respectively. According to the project EIA, the mine de-watering discharge will be 60m^3/h.

The project Feasibility study reports, elevation of the project site is 238.0m and there is a seasonal river 1km to the southeast of the site with a riverbed elevation of 5~6m lower than that of the project site, causing no threat to this mine. The project site is also 2.5m higher than the maximum floodwater level in this location. Furthermore, to prevent overflow of the rainwater during rainy season, water interception trenches will provided around the site, which intercept the rainwater from the hill slopes and lead it to the outside of the site. These diversion drains were not evident as being built yet, during SRK's site investigation.

Hydrogeological conditions affecting this mine shaft are reported to be simple. Mine shaft water includes groundwater and atmospheric precipitation, underground water is mainly compensated by atmospheric precipitation. Bedrock of this mine shaft is mostly exposed at the ground surface, which features developed fissures at shallow depth forming favourable conditions for receiving the precipitation.

To ensure timely drainage of mine water from the mine shaft, the Huanghuashan Feasibility Study states a main water drainage pump house be provided at the bottom of the shaft according to the maximum and normal water in-rush in the mine shaft, in which three Type MD280-43 X 6 water pumps are installed (one operating, one on standby and another spare for one is under repair). Two drainage pipes have been laid along the shaft, and small-duty water pumps are provided at the recess of each gallery. After the mine water is discharged onto the ground level, it is stated in the Mine Design Plan and EIA that it will be treated by a combined water treatment device which can then be used for underground fire-fighting and water spray, road water spray as well as forestation. Sludge will be subject to filter press treatment and will be discharged through wastewater drains. During SRK's site investigation tis was not seen to be implemented as yet, with mine water being discharged onto the ground surface surrounding the mine, without any treatment or containment and being allowed to infiltrate back into the ground.

The project Feasibility Study and Mine Design Plan state that during production care should be given to the varying water in-rush during rainy season so that timely measures can be taken to ensure safe production in the mine shaft. In addition, efforts must be made in diverting and draining surface water away from mine workings during the rainy season and fissures in the ground surface must be filled up as appropriate.

With the expansion of the production scale of the coal mine as well as the increase of the population in Huanghuashan Town, wastewater discharge from the coal mine will be on the rise. If the wastewater is discharged directly in an unorganized manner without any treatment, it is bound to cause more serious pollution to the underground and surface water in the area. Therefore, if the pollution load of the underground water in this area is to be reduced, attention should be given to each and every source of discharge. Only in this way can the pollution be kept under control, improving the underground water quality as a whole and people's living environment.

For the purpose of prevention of pollution, protection of water bodies and reasonable utilization of water resources, the priority principle for water pollution control is to improve the reuse of wastewater, using the wastewater as a resource. Wastewater produced during development of the mine mainly includes: production wastewater and domestic sewage discharges from the industrial site and the administrative and welfare districts of the mine as well as mine water.

8.8 Erosion Control

The Huanghuashan EIA and Soil and Water Conservation Plan state; according to the water and soil erosion pattern, types and degrees in the project area and direct area of impact during the project construction period, and considering the time sequence of the construction, three types of control zones can be divided into for water and soil conservation control in the mining area:

- Priority control zone: including the industrial ground, etc.
- Comprehensive control zone: including road, etc.
- Closed forest protection zone: including the existing forests and meadows in the range of the coalfield.

Different control measures should be adopted for different zones mentioned above. The control principle is: putting prevention first, combining prevention with control, combining vegetation measure with engineering measure, and combining priority control with generic protection. Isolating protection forest as well as greening and beautification measures such as tree planting and grass planting, etc. should be mainly adopted for the comprehensive control zone. Access roads in the mining area are subject to slope protection and planting of protective green belt, which should be artificially allocated through a combination of arbours, shrub and grass.

The project EIA and Soil and Water Conservation Plan state, to reduce erosion and protect the vegetation, comprehensive measures consisting of engineering controls and vegetation protection has been adopted in this design. Furthermore, it is required that the water and soil conservation measures are implemented simultaneously with construction of the mine. During infrastructure construction, construction of the processing and auxiliary facilities of the mine are the main factors contributing to soil erosion. Measures to be taken during the infrastructure construction include the following:

(I) Engineering measures

1. Maintain the existing surface vegetation; minimize area of damage to the existing surface vegetation as much as possible. The construction team is prohibited from "random cutting, random logging, random burning and random levelling", and construction accesses should be fixed.

2. The various types of stone and earth materials should be piled up in an organized manner, with practical engineering protection in place, for example, the construction of side slopes and protective slopes, etc.

3. Biologic measures should be taken against the damage to the existing ground surface as early as possible, covering the bare areas with trees and grasses in order to prevent the occurrence of soil erosion.

During production, the water and soil conservation engineering should be focused on the surrounding of the mine ground. To ensure normal operations, effective protection measures of the various types should be taken to prevent floodwater from entraining sediment from the site grounds.

(II) Forest and grass measures

Forest and grass measures are biologic measures supplemental to the engineering measures, which are mainly focused on the management of slopes, and are important measures for reducing soil erosion. Forest and grass revegetation is extremely important for improvement of the ecological environment in the mining area. Forest and grass revegetation includes: artificial grass planting, channel protection forest, road protection forest, protection forest and economic forest for industrial ground and residential area and so forth.

8.9 Hazardous Materials

The hazardous materials that will be utilised within the Huanghuashan project comprise: Diesel and oils for mobile plant and explosives. Explosives and detonators shall be stored separately in the mine. Explosive and detonator boxes shall be kept in the tunnel or chamber which is well ventilated, spray water-free and perfectly supported and shall be kept away from charged bodies.

The Huanghuashan EIA report contains no mention of practices in relation to environmental control and management of the above stated hazardous materials. In practice at site, oil (diesel and motor) stored on site was seen to have no secondary containment at the time of the site investigation. Due to the project being in the development stage, only a small amount of hydrocarbons were stored at site during the time of SRK's site visit. Storage of hydrocarbons is presently within a small concrete floored shed beside the office/residential building. The storage and handling of hydrocarbons within the Huanghuashan projects does not conform to international industry standards (e.g. Australian Standard AS1940-2004: The storage and handling of flammable and combustible liquids).

8.10 Air Emissions

8.10.1 Dust Generation

The project EIA reports, due to the local conditions being arid, windy and sparsely vegetated, dust suppression measures will need to be adopted during coal production, storage and transportation. Water spray dust suppression will be applied to road sections with heavy traffic and an enclosed coal yard with cover will be used as along as possible. For open storage, water spray humidification measures among others will be adopted to increase surface humidity of the coal dumps, and wind protection green belts shall be formed around the coal yard, especially upwind, where isolating high-forest and shrubbery will be planted with a tree spacing of 1.0m and a row spacing of 1.0m, in an effort to minimize or eliminate secondary fly dust.

To control fly dust generated by vehicular transportation in the mining area, roads in the mining area should be hardened. Meanwhile, the road surfaces should kept clean and a certain humidity; coal transportation vehicles must be covered with canvas and the amount of load should also be controlled. Furthermore, it is required that high-quality canvas should be used.

After the ROM coal has been extracted from the mine it is transported from the shaft portal to the coal yard, periodic water spray dust suppression shall be carried out. This measure may serve to reduce the emission of coal dust, alleviating pollution to the environment. The following measures should be adopted in places that are susceptible to coal dust during handling of ROM coal: Set up a ROM coal stockyard, increase humidity of the ROM coal, reduce coal loading/unloading height, etc.

For disposing of boiler cinder, care should be taken to prevent secondary pollution due to fly dust, and water spray device must be provided for dust suppression if necessary.

8.10.2 Gas Emissions

After the mine begins operation, a boiler house will be built to supply hot water for heating and showering. One Type SZL-0.7-A II steam boiler and one Type SZL1.4-0.7/95/70-A II hot water boiler shall be installed. The boilers will be fired on coal from this mine itself, which has an ash content of 38.32~45.54%, a volatility of 22.6% or so and a sulphur content of 0.8%. The main air pollutants are smoke dust and SO2. The project EIA states, to minimize the smoke dust and SO2 emission concentrations, each boiler will be equipped with a Type GSL/G-2 desulpurization dust collector each with a de-dusting efficiency of over 92%. Meanwhile, the chimney height should not be less than the required height specified according to the total rated output of the boilers in the Emission Standard of Atmospheric Pollutants from Boiler (GB13271-2001) – II – stage coal-fired boiler. In this design, the chimney height is 30m.

This design adopts Type GSL/G-2 desulphurizing dust collector with a desulpurization efficiency of 40% for treatment of the flue gas. The emission concentration is forecast at 850mg/m^3, which meets the requirements of Emission Standard of Atmospheric Pollutants from Boiler (GB13271-2001) – II – stage coal-fired boiler.

8.10.3 Greenhouse Gas Emissions

There is no Chinese National legislative requirement for the project to estimate its Greenhouse Gas emissions or to implement any emissions reductions. As such none of the project environmental assessment documentation reviewed address the issue of Greenhouse Gas emissions. However, energy efficiency and the reduction of Greenhouse Gas emissions are now considered as Chinese National policy directives. In addition, these are also components of IFC environmental requirements and are considered as internationally recognised environmental management practices. Therefore, initiatives to account for such emissions would be beneficial to the operation.

No methane gas measurement was carried out during survey of the small shaft. In production of similar mine shafts, the amount of methane detected in the coal seams was minor. Specific conditions of methane in this mine remains to be measured and analysed in the future production of the mine.

8.11 Waste Management

8.11.1 Waste Oil

Waste oil is generated through the maintenance of mobile and fixed plants. No designated waste oil collection and management facilities were observed during the site investigation and management of waste oil is not addressed within the reviewed project environmental assessment and approval documentation. Hengyuan Mining stated they have no plan for dealing with waste oil/grease at the present time. Although very little is being produced due to the project not yet being operational, SRK recommends the collection and sale of waste oil/grease for recycling and reuse in line with Chinese state directives on the comprehensive reuse and recycling of waste products.

It is worth noting that the IFC requirements and internationally recognised environmental management practice with regards to waste oil is to explore commercial alternatives for environmentally sound disposal, recycling or reuse. The management of waste oil is not addressed within the project EIA report or Soil and Water Conservation Plan, which does not fulfil these requirements.

8.11.2 Solid Wastes

The proposed project will produce solid wastes during construction and operation, which mainly includes construction and domestic garbage. Long-time storage of the garbage will give rise to fly dust, which will also interfere with the construction work and operation of the mine. Therefore, it is necessary to have a proper disposal of such garbage. Prior to construction of the project, a construction garbage disposal site should be applied for at the urban construction authority, where the garbage should be properly stored. Generation of domestic garbage after the project is put into operation is estimated at 43 t/a.

An appropriate number of garbage bins should be placed in the main buildings in the industrial ground and other operating positions for collection of garbage, and a garbage truck should be provided for transport of the garbage. The project EIA states for disposal of domestic garbage: Select a hill valley and transport the garbage to this location where the garbage should be sorted in a simplified manner. Then use the inorganic part of the garbage (mainly including furnace ash, bricks and tiles, etc. to fill in the collapsed area nearby. Compost the organic part for fermentation treatment and make it into harmless fertilizer to be used in farm land for improvement of the soil fertility.

8.11.3 Sewage and Oily Waste Water

The project EIA and Mine Design Plan report, production wastewater and domestic sewage discharge from the industrial site will be about 60 m^3/d, which will mainly contain such pollutants as BOD, COD, SS and oil etc. In this design, biochemical treatment technology, specifically contact oxidization process, will be adopted for treatment of the production wastewater and domestic sewage. The equipment is specified as Type WSZ-I, which is mainly composed of six parts, namely, the preliminary sedimentation tank, contact oxidization tank, secondary sedimentation tank, disinfection tank, disinfection device, sludge tank, blower house and air blower.

Water drainage pipes are provided at the industrial site to collect wastewater and sewage from the various water discharge points and send it to a septic wastewater treatment facility located in the south part of the industrial site; there it is treated to the discharge standard. Sludge is subject to filter press treatment. The treated mine water may all be used for underground fire-fighting and water spray, loess grouting, coal yard as well as road water spray and forestation, farmland irrigation, etc.. The Huanghuashan EIA states the treatment effect will ensure the quality of the treated water meets Class I criteria of the Integrated Emission Standard of Wastewater (GB8978-1996). Quantities of wastewater and sewage at the industrial site are estimated at 24.16m^3/d and 10.2m^3/h_{max} respectively.

8.12 Noise

The project Mine Design Plan and Feasibility Study report, sources of noise in the mine include: ventilator house, repair workshop, gangue separation shop, etc... By adhering to the principle of being economically reasonable and technically feasible, noise control is carried out aiming at protecting health of operators, improving the working environment and facilitating operation.

For noise suppression and working environment improvement, the two BK40-6-No.13 type ventilators provided for the mine utilize mufflers. Traffic noises will be suppressed through improvement of pavement structures as well as forestation measures in order to provide the employees with a tranquil living and working environment.

The project Mine Design Plan and Feasibility Study state, whenever technically feasible in the design, the production process is renovated in order to adopt advanced equipment as far as possible, substituting riveting for welding, impacting for hydraulic, pneumatic for hydrodynamic, in an effort to alleviate the magnitude of noise pollution; making use of the multiple environmental functions of forestation by increasing forestation area, intensifying maintenance of forests, making the environmental noise to reach the regulatory criteria through isolation of the green belts. With the aforementioned control measures in place, the noise level will reach the Category IV Zone requirements of the "Standard of noise at boundary of Industrial Enterprise" (GB12348-90).

8.13 Contaminated Sites Assessment

There is no documented contaminated sites assessment process for the Huanghuashan project. Observed during the site investigation were areas susceptible to becoming contaminated sites were coal has been previously stockpiled. These areas were unlined and uncontained upon open ground. Mine dewatering was also being discharged upon the ground with no collection or treatment facilities which could also lead to the development of contaminated sites. As there has been no chemical characterization of other elements in the coal or gangue besides sulphur and ash content, the potential for these sites to be contaminated is not known, hence SRK's recommends assaying these materials to understand their potential risks along with constructing containment facilities.

SRK recommends upgrading bunds around storage sites for concentrates, oils and wastes. A contaminated sites assessment should also be conducted for suspect areas and an assessment process for continued management should be implemented.

8.14 Evaluation of Environmental Risks

The sources of inherent environmental risk for the Huanghuashan Coal project are project activities that may result in potential undesirable events/environmental impacts. These project activities have been previously described within this report. In summary they are as follows:

- Surface water management and discharges (i.e. stormwater runoff & diversions).
- Groundwater management and discharges (i.e. mine dewatering not treated or collected).
- Rehabilitation of waste rock and coal stockpiles and other disturbed areas.
- Storage and handling of hazardous materials.
- Waste generation and management (industrial and domestic wastes).
- No characterization of process waste materials or gangue.
- No monitoring of waste water discharges
- Potential contaminated sites.
- Lack of a structured closure planning process.
- Lack of erosion control measures.

Of the above items, the most significant environmental risks for the Huanghuashan coal mine are associated with storage and handling of coal and gangue stockpiles. In addition, the potential for generating contaminated sites and operational closure liabilities through management of hazardous materials and general waste; also presents high environmental risks. In particular, the Huanghuashan operations have no structured process in place for undertaking contaminated sites assessment and for broader closure planning.

Generally all of the above high environmental risks are able to be reduced through application of appropriate remedial/risk management measures; including implementation of a comprehensive and appropriately resourced, operational environmental monitoring and management plan for the Huanghuashan project (i.e. fully implement and update plans documented as part of the project EIA process).

8.15 Site Closure Planning

A component of World Bank/IFC and internationally recognised environmental standards and practices, is that a site closure planning process be developed and implemented, and that an operational Closure Plan is documented to guide this process. This closure planning process should include the following components:

- Identify all site closure stakeholders (e.g. government, employees, community etc.).

- Undertake stakeholder consultation to develop agreed site closure criteria and post operational land use.

- Maintain records of stakeholder consultation.

- Establish a site rehabilitation objective in line with the agreed post operational land use.

- Describe/define the site closure liabilities (i.e. determined against agreed closure criteria).

- Establish site closure management strategies and cost estimates (i.e. to address/ reduce site closure liabilities).

- Establish a financial accrual process for site closure.

- Describe the post site closure monitoring activities/program (i.e. to demonstrate compliance with the rehabilitation objective/closure criteria).

The Huanghuashan Operation does not have in place a closure planning process in line with the above components. The project EIA outlines requirements for rehabilitation of site landform disturbances, which consists of filling fissures, covering with soil and revegetating. The EIA states the need for a management organization team to be set up to manage closure and rehabilitation issues, but seeing as the project is still in early construction Hengyuan Mining has not yet developed such a team. No other information on closure requirements is mentioned or plan for closure has been presented for review at this time.

8.16 Site Rehabilitation and Closure Cost Estimates

Impact's of the coal mine's construction on the ecological environment in the project area is inevitable. These impacts may be long-term or short-term, which may be reduced and eliminated by means of ecosystem rehabilitation technologies. The Huanghuashan EIA states, the main task of coal mine ecosystem rehabilitation is to take remedial measures to restore the land damaged due to excavation, collapse and occupancy, etc. occurring as a result of construction and production. The mine owner should contact the local authority and raise funds actively for the rehabilitation of the damaged land.

In addition, in areas impacted by mining operations, cultivation should be stopped; the farmland should be converted back to forest and grassland according to the relevant water and soil conservation stipulations as well as specific local conditions. Land rehabilitation may be carried out in the form of forest restoration in order to alleviate the degree of local soil erosion, favourable for rapid restoration of local ecological environment.

For a better land restoration work, the mine authority should set up a land rehabilitation administrative office headed by top management of the mine, which shall be responsible for the land rehabilitation works of the entire mine and actively engaged in land restoration activities. Main responsibilities of this administrative office should include the following:

(1) Responsible for the design contract to be signed for land rehabilitation plan. A qualified design institute should be commissioned to compile a land restoration plan, which shall then be submitted to the land administration department for approval. After obtaining the approval, this office shall be responsible for its implementation.

(2) Responsible for making a work plan for land restoration program. Land use status of the land to be impacted should be investigated according to the mine production plan and arrangement as well as status of the underground working face, for which a record should be maintained. Prepare a rehabilitation plan according to the forecast of ground surface displacement and deformation as well as areas of land actually affected or damaged.

(3) Responsible for measurement, registration as well as payment of compensation for land loss with respect to the land damaged, which will be submitted as a part of the handover formality after restoration completes as well as a part of the formality for land acquisition.

At the time of SRK's site visit, no site rehabilitation and closure cost estimates were completed for the Huanghuashan Coal Mine.

Indicative site closure costs can be developed as a component of a Preliminary Site Closure Plan (i.e. the site's closure criteria and associated closure liabilities will be determined as part of this process). This process will determine (through stakeholder consultation), the site's closure criteria and associated closure liabilities. It can be assumed that the decommissioning costs of the site infrastructure may be off-set through either the sale or redeployment of assets. Indicative site rehabilitation and closure measures can then be developed along with cost estimates for their implementation.

9 MAJOR CONTRACTS AND AGREEMENTS

9.1 Mining Contracts

SRK is not aware of any significant contract at Huanghuashan as the mine is on care and maintenance.

9.2 Supply Contracts

Supplies of consumable materials is limited as the mine is on care and maintenance.

9.3 Labour Relations

The Huanghuashan underground is currently on a care and maintenance, and as such employment at the mine is restricted to security personnel and a few miners.

10 SOCIAL ASSESSMENT

10.1 Social and Community Interaction

Huanghuashan Township in Zalute Banner is situated on a wide and flat plain with undulating mountains to its north, which is a uniquely favourable region for developing agriculture and livestock industry. In 2001, the sown area was $48.7km^2$ of farmland and $7.998km^2$ of forage land, with a total grain yield of 2.0×10^4t. Grain crops are dominated by corn and other food grains. The economic crops mainly include mungbeans and sunflower seed, etc.

To the north of the project site are residential houses of local villagers. Considering the impact of the mine development on local villagers' life and living, it is proposed that the three households that are the closest to the mine shall be relocated, to whom sufficient economic compensation will be granted. Houses of other villagers are far enough from the coal mine.

A social assessment of the residents surrounding the project before construction revealed large community support for the project. With little previous industry developed in the area, locals felt the project would be advantageous to the development of the area, but still expressed a wish that the project be developed with regard for the environment.

Positive effects to the surrounding local communities are mainly in the form of direct employment of local contractors and the use of local suppliers/service providers where practical. As operation of the project and capacity of the company increases, more employees may be needed, adding some 150 job positions.

No records of public complaints in relation to the activities of Huanghuashan Project were sighted as part of this review.

10.2 Cultural Minorities and Heritage

Nationalities living in this town include Mongolian, Han, Man nationality, etc., and other minorities include Hui and Miao Nationalities, with Mongolians being the largest group at about 60% according Hengyuan Mining.

There are no scenic spots, historical sites or minority groups reported around the Huanghuashan project site. No records of cultural heritage sites located within or near the project area, were been sighted as part of this review.

10.3 Relationship with Local Government

The Huanghuashan Operations have a close relationship with the local Zalute Banner County Government, evidenced by the following:

- Electrical power for the site is currently sourced from the local County grid.
- Zalute Banner's County directive to develop and make use of coal resources prevalent in the area.
- The project driving the local economy and tax benefits to the government itself.
- Verbal statement from Hengyuan Mining.

11 INTERPRETATION AND CONCLUSIONS

Geology

The Huanghuashan Project has been explored in detail to define a Resource of semi-anthracite coal suitable for the domestic market and amenable to underground mining methods.

The borehole data from 1969 is not available; however, the interpretation of the geology and coal seams has been conducted to Chinese standards.

At this early stage of exploration activity, the classification of an Inferred and unclassified Resource is somewhat encouraging to investors to commit to further development of the project. The next stage will aim to proving Measured and Indicated Resources in preparation for a full feasibility study.

SRK China highlight that the 1969 drilling has demonstrated that the deposit is characterized by abundant felsic igneous intrusions and some significant structural features. Indeed, SRK observed sills in the 3rd coal seam, as well as a number of sub-vertical reverse faults, during the inspection of the underground mine. It can thus be concluded that there appears to be some geological issues which may cause significant impact on the mining of the coal.

Nonetheless, the Huanghuashan Project has an excellent potential to be further developed into an economic coal mine servicing the Chinese domestic market.

Mining

- Mine design and development planning suits the proposed production level of 300,000 tonnes per annum. However, the mine is only partly developed. Therefore, further capital expenditure for developing the mine up to the farthest limit will have to make concurrently with production.

- Life of mine is about 14 years at full production level. It will be advisable to take up further exploration for increasing the life of the mine.

- All the three coal seams have been approached by panel incline method. Planned length of incline up to the southern boundary is 924m, starting from +238 above msl. So far, 420m has been driven in both inclines. Two 80 x 600m dip-rise longwall panels have been developed and equipped for production in seam 3.

- Declines are fully concreted in arch shape. Laterals and other galleries are supported by wooden props and crossbars. The longwall face is supported individual steel friction props and link bars. Density of support is 626 kn/m^2.

- Based on the information received on site, no study of RMR or RQD and also cavability characteristics of the roof rocks have been conducted. SRK is concerned about the adequacy of support and regular caving of roof behind face.

- Ventilation is effected by two exhaust fans, one operating and one spare, at incline mouth. Total ventilation requirement is 1238.16m^3/min at 82.68 mm wg.

- Air flow observed during visit was found to be adequate. To improve working condition in the winter, heated air is blown into the intake airflow. Provision of a electric powered boiler for heating the air has been installed at surface for the purpose.

- Gas content of the coal seams is very low, about 1.39 m^3/t. No danger from methane is apprehended.

- Water make is 50-100 m^3/h. three pumps of 200m head has been installed at +137m horizon between two declines where sumpage of 400 m^3 has been provided.

- Dust suppression and fire fighting will be done by water spraying. For this purpose a separate pipe range has been provided from surface.

- Underground transport by scraper conveyor and tub-winch combination is adequate for achieving targeted production.

- Although general quality of the coal appears to be acceptable by power plants, SRK apprehends that intrusions observed in the coal seam may vitiate the quality of product. Provision for separation of foreign materials from Run-of-mine coal should be made to improve the quality of the final product.

- The health of the equipment, major installations and construction, as observed superficially (not seen in operation), appears to be of standard make approved under statute and maintained in good condition. The capacity of equipments, as stated by the mine officials and technical appraisal, are adequate for achieving the targeted production.

Environmental

The environmental technical review identified numerous environmental issues and problems as relate to the current Huanghuashan Coal mine project not following conditions for construction and operation, as stated in the governmental approvals. The most significant potential environmental management liabilities that relate to the operation and development of the current Huanghuashan Project are:

- Surface water management and discharges (i.e. stormwater runoff & diversions).

- Groundwater management and discharges (i.e. mine dewatering not treated or collected).

- Rehabilitation of waste rock and coal stockpiles and other disturbed areas.
- Storage and handling of hazardous materials.
- Waste generation and management (industrial and domestic wastes).
- No characterization of process waste materials or gangue.
- No monitoring of waste water discharges.
- Potential contaminated sites.
- Lack of a structured closure planning process.
- Lack of erosion control measures.

Of the above items, the most significant environmental risks for the Huanghuashan coal mine are associated with storage and handling of coal and gangue stockpiles. In addition, the potential for generating contaminated sites and operational closure liabilities through management of hazardous materials and general waste; also presents high environmental risks. In particular, the Huanghuashan operations have no structured process in place for undertaking contaminated sites assessment and for broader closure planning. No monitoring of discharges or the environmental quality of the receiving waters. The lack of characterization of process wastes and the potential for Acid Rock Drainage and metal leaching may also be of concern.

It is recommended that comprehensive operational environmental monitoring and management plans for each project be developed and implemented as per the project EIA stipulations to address the identified environmental risks. These plans should be appropriately resourced and their implementation documented. In particular, consideration should be given to the implementing the following environmental management measures:

- Water monitoring and management program focusing on mining, waste rock and coal stockpile facilities.
- Upgrade storage and handling of hydrocarbons and chemicals as per design (i.e. properly designed and managed secondary containment storage facilities).
- Undertake contaminated sites assessment for areas where there is potential for contamination (e.g. uncontained hydrocarbon/chemical storage areas).
- Develop a site closure planning process that identifies and quantifies potential closure liabilities (e.g. contaminated areas), and implements remediation measures for these liabilities.

- Rectify and maintain the mine dewatering waste water drain and sedimentation pond to ensure proper working conditions.
- Soil stripped as overburden be stockpiled (in piles less than two metres in height) in a suitable place (with diversion drains) for later use in rehabilitating the site.
- Diversion drains be constructed at the open pit sites and roads.
- Upgrade diversion drains around the site to ensure adequate diversion of surface water flows.

12 RECOMMENDATIONS

It is recommended that the current information for the Huanghuashan Project is of sufficient merit to undertake a detailed drilling program in order to upgrade the Coal Resources to higher categories. This drilling campaign is expected to fulfill the requirements for a final feasibility study and to test the sequence to basement to assess the coal seam quality and underground potential at depth.

13 REFERENCES

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14 DATE AND SIGNATURE

Dated this 31st day of January, 2008

Per Michaelsen

Dr Per Michaelsen
Senior Consultant (Coal Geology)
SRK Consulting China Ltd

Abbreviations

AusIMM	Australasian Institute of Mining and Metallurgy
cm	centimeter
CPP	coal processing plant
CSN	crucible swelling number
CV	calorific value
DMC	dense medium cyclone
E	east
HKSE	Stock Exchange of Hong Kong Limited
JORC	Joint Coal Reserves Committee Code
kcal/kg	kilocalories per kilogram, equivalent to 1,000 calories per kilogram
Kiu Hung	Kiu Hung International Holdings Ltd
km	kilometers, equivalent to 1,000 meters
km^2	square kilometres
kV	kilovolts, equivalent to 1,000 volts
kVA	kilovolt-ampere, equivalent to 1,000 volt-ampere
kWh	kilowatt-hour, equivalent to 1,000 watt-hour
m^3	cubic meters
m^3/sec	cubic meters per second
m^3/tonne	cubic meters per tonne
mg/m^3	milligrams per cubic meter
Ml	megalitres, equivalent to 1,000,000 litres
Mt	million tonnes
Mtpa	million tonnes per annum
MVA	megavolt-ampere, equivalent to 1,000,000 volt-ampere
MW	megawatt, equivalent to 1,000,000 watt
N	north
PPE	personal protective equipment
ROM	run of mine
S	south
SG	specific gravity
SRK	SRK Consulting China Ltd
TM	total moisture
tph	tonnes per hour
t/m^3	tonne per cubic meter
Valmin Code	Code for the Technical Assessment and Valuation of Mineral and Petroleum Assets and Securities for Independent Expert Reports
W	west
wg	water gauge
WWTP	waste water treatment plants
>	greater than
<	less than

APPENDICES

Appendix 1: Chinese Resource and Reserve Standards

Categorisation of Mineral Resources and Ore Reserves

The system for the categorisation of mineral resources and ore reserves in China is in a period of transition which commenced in 1999. The traditional system, which is derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence – Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land & Resources (MLR) in 1999 uses three-dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form "123". This new system is derived from the UN Framework Classification proposed for international use. All new projects in China must comply with the new system. However, estimates and feasibility studies carried out before 1999 will have used the old system.

Wherever possible, the Chinese Resource and Reserve estimates have been reassigned by SRK to categories similar to those used by the JORC Code to standardize categorization. Although similar terms have been used, SRK does not mean to imply that in their present format they are necessarily classified as 'Mineral Resources' as defined by the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code").

A broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following table.

JORC Code Resource Category	**Chinese "Reserve" Category**	
	Previous System	**Current system**
Measured	A	111, 111b, 121, 121b, 122, 122b, 2M11, 2M21, 2M22, 2S21, 331
Indicated	B	
Inferred	C	112, 112b, 2S11, 2S12, 2S22, 332
	D	113, 113b, 123, 123b, 333
Unclassified	N/A	334

Relationship between JORC Code and the Chinese Reserves System

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant Government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum 'industrial' or 'economic' grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of each category B, C & D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent "JORC Code type" category. The traditional Categories B, C & D are broadly equivalent to the 'Measured', 'Indicated', and 'Inferred' categories that are provided by the JORC Code and USBM/USGS systems used widely elsewhere in the world. In the JORC Code system the 'Measured Resource' category has the most confidence and the 'Inferred' category has the least confidence, based on the increasing levels of geological knowledge and continuity of mineralisation.

Definition of the new Chinese Resource and Reserve Category Scheme

Category	Denoted	Comments
Economic	1	Full Feasibility Study considering economic factors has been conducted
	2	Pre-feasibility to scoping study which generally considers economic factors has been conducted
	3	No pre-feasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in "2" by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping etc
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small-scale mapping)
	3	Minor work which projected throughout the area
	4	Review stage

Appendix 2: Legislative Background

The Chinese Mineral Resources Law (1996), Rules for Implementation of the Mineral Resources Law of the People's Republic of China (2006) and *Environmental Protection Law (1989)* provides the main legislative framework for the regulation and administration of mining projects within China. The *Environmental Protection Law (1989)* provides the main legislative framework for the regulation and administration of mining projects environmental impacts.

The following articles of the *Mineral Resources Law (1996)* summarise the specific provisions in relation to environmental protection:

Article 15 Qualification & Approval

Anyone who wishes to establish a mining enterprise must meet the qualifications prescribed by the State, and the department in charge of examination and approval shall, in accordance with law and relevant State regulations examine the enterprise's mining area, its mining design or mining plan, production and technological conditions and safety and environmental protection measures. Only those that pass the examination shall be granted approval.

Article 21 Closure Requirements

If a mine is to be closed down, a report must be prepared with information about the mining operations, hidden dangers, land reclamation and utilization, and environmental protection, and an application for examination and approval must be filed in accordance with relevant State regulations.

Article 32 Environmental protection obligations of mining license holders

In mining mineral resources, a mining enterprise or individual must observe the legal provisions on environmental protection to prevent pollution of the environment.

In mining mineral resources, a mining enterprise or individual must economize on the use of land. In case cultivated land, grassland or forest land is damaged due to mining, the mining enterprise concerned shall take measures to utilize the land affected, such as by reclamation, tree and grass planting, as appropriate to the local conditions.

Anyone who, in mining mineral resources, causes losses to the production and well-being of other persons shall be liable for compensation and shall adopt necessary remedial measures.

The following articles of the *Environmental Protection Law (1989)* summarise the specific provisions for environmental protection in relation to mining:

Article 13 Environmental protection

Units constructing projects that cause pollution to the environment must observe the state provisions concerning environmental protection for such construction projects.

The environmental impact statement on a construction project must assess the pollution the project is likely to produce and its impact on the environment and stipulate the preventive and curative measures; the statement shall, after initial examination by the authorities in charge of the construction project, be submitted by specified procedure to the competent department of environmental protection administration for approval. The department of planning shall not ratify the design plan descriptions of the construction project until after the environmental impact statement on the construction project is approved.

Article 19 Statement of requirement for Environmental protection

Measures must be taken to protect the ecological environment while natural resources are being developed or utilized.

Article 24 Responsibility for Environmental protection

Units that cause environmental pollution and other public hazards shall incorporate the work of environmental protection into their plans and establish a responsibility system for environmental protection, and must adopt effective measures to prevent and control the pollution and harms caused to the environment by waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation generated in the course of production, construction or other activities.

Article 26 Pollution Prevention & Control

Installations for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. No permission shall be given for a construction project to be commissioned or used, until its installations for the prevention and control of pollution are examined and considered up to the standard by the competent department of environmental protection administration that examined and approved the environmental impact statement.

Article 27 Report on Pollution Discharge

Enterprises and institutions discharging pollutants must report to and register with the relevant authorities in accordance with the provisions of the competent department of environmental protection administration under the State Council.

Article 38 Violation Consequences

An enterprise or institution which violates this Law, thereby causing an environmental pollution accident, shall be fined by the competent department of environmental protection administration or another department invested by law with power to conduct environmental supervision and management in accordance with the consequent damage; in a serious case, the persons responsible shall be subject to administrative sanction by the unit to which they belong or by the competent department of the government.

The following are other Chinese laws that provide environmental legislative support to the *Minerals Resources Law (1996)* and the *Environmental Protection Law (1989)*:

- *Environmental Impact Assessment (EIA) Law (2002).*
- *Law on Prevention & Control of Atmospheric Pollution (2000).*
- *Law on Prevention & Control of Noise Pollution (1996).*
- *Law on Prevention & Control of Water Pollution (1996).*
- *Law on Prevention & Control Environmental Pollution by Solid Waste (2002).*
- *Forestry Law (1998).*
- *Water Law (1988).*
- *Water & Soil Conservancy Law (1991).*
- *Water Conservancy Industrial Policy (1997).*
- *Cleaner Production Law (2003).*
- *Land Administration Law (1999).*
- *Protection of Wildlife Law (1989).*
- *Energy Conservation Law (1998).*
- *Electric Power Law (1995).*
- *Management Regulations of Prevention & Cure of Tailings Pollution (1992).*
- *Management Regulations of Dangerous Chemical Materials (1987).*

The relevant environmental protection related Chinese legislation utilised for project's design are a combination of the following National design regulations and emissions standards:

- *Environment Protection Design Regulations of Construction Project (No. 002) by Environment Protection Committee of State Council of PRC (1987).*
- *Decree No. 152 of the State Council of the People's Republic of China – Detailed Rules for the Implementation of the Minerals Resources Law (1994).*
- *Decree No. 253 of the State Council of the People's Republic of China – Regulations on the Administration of Construction Project Environmental Protection (1998).*
- *Huan Fa No. 28 of State Environmental Protection Administration – Notice on Interim Measures for Public Participation in Environmental Impact Assessment (2006).*
- *Guo Fa No. 38 of the State Council – Notice on National Programme for Eco-Environmental Conservation (2000).*
- *Industrial Policy for China Resources Comprehensive Utilization (2003).*
- *Regulations for Quality Control of Construction Projects (2000).*
- *Regulations for the Implementation of the Water and Soil Conservation Law (1993).*
- *Regulations for Environmental Monitoring (1983).*
- *Regulations on Nature Reserves (1994).*
- *Regulations on Administration of Chemicals Subject to Supervision & Control (1995).*
- *Regulations on Management of Chemicals Subject to Supervision & Control (1995).*
- *Environment Protection Design Regulations of Metallurgical Industry (YB9066-55).*
- *Comprehensive Emission Standard of Wastewater (GB8978-1996).*
- *Sewage Discharge Standard (GB8979-1996).*
- *Irrigation Water Quality Standard (GB5084-1992).*

- *Environmental Quality Standard for Surface Water (GB3838-2002).*
- *Environmental Quality Standard for Groundwater (GB/T14848-1993).*
- *Ambient Air Quality Standard (GB3095-1996).*
- *Comprehensive Emission Standard of Atmospheric Pollutants (GB16297-1996).*
- *Atmospheric Diffusion Parameters and VWP Index (GB/T13201-1991).*
- *Emission Standard of Atmospheric Pollutants from Industrial Kiln (GB9078-1996).*
- *Emission Standard of Atmospheric Pollutants from Boiler (GB13271-2001) – II – stage coal-fired boiler.*
- *Environmental Quality Standard for Soils (GB15618-1995).*
- *Standard of Boundary Noise of Industrial Enterprise (GB12348-90).*
- *Emissions Standard for Pollution from Heavy Industry; Non-Ferrous Metals (GB4913-1985).*
- *Control Standard on PCB's for Wastes (GB13015-1991).*
- *Standard for Pollution Control on Hazardous Waste Storage (GB18597-2001).*
- *Standard for Pollution Control of Hazardous landfill Sites (GB18598-2001).*
- *Standard for Pollution Control on General Industrial Solid Waste Sites (GB18599 2001).*
- *Identification Standards for Hazardous Waste – Identification for Extraction Procedure Toxicity (GB5085.3-1996).*
- *Standard of Landfill and Pollution Control of Hazardous Waste (GB 18598-2001).*

*A*ppendix 3: Mining License

中华人民共和国

采矿许可证

(副本)

证号：1500000720617

采矿权人：通辽市恒源矿业有限责任公司

地　　址：通辽市扎鲁特旗

矿山名称：通辽市恒源矿业有限责任公司黄花山煤矿

经济类型：外资企业

开采矿种：煤

开采方式：地下开采

生产规模：15.00万吨/年

矿区面积：1.7099平方公里

有效期限：叁年 自2007年11月 至2010年11月

二〇〇七年

中华人民共和国国土资源部印制

矿区范围拐点坐标：

点号	X坐标	Y坐标
1	4947125.00	21355950.00
2	4946440.00	21356150.00
3	4946209.00	21356740.00
4	4946140.00	21357080.00
5	4946140.00	21357440.00
6	4946070.00	21357920.00
7	4946220.00	21358250.00
8	4947138.00	21357600.00

开采深度：由200米至-170米标高　共有8个拐点圈定

Technical Review on Bayanhushuo Project,

Inner Mongolia, China

Kiu Hung International Holdings Limited

SRK Project Number SHK003

SRK Consulting China Ltd, B1408 COFCO Plaza
No. 8 Jianguomennei Dajie, Dongcheng District, Beijing China 100005

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31st January 2008

EXECUTIVE SUMMARY

Kiu Hung International Holdings Ltd. ("Kiu Hung" or "the Company" or "the Group") commissioned SRK Consulting China Ltd trading as SRK Consulting (SRK) to undertake an independent review of the Bayanhushuo Project in Inner Mongolia, in compliance with the listing rules of The Stock Exchange of Hong Kong Limited. The report will in turn provide potential investors with a clear and un-biased view of the asset and its future production potential. This review summarises the major findings of the SRK work which was conducted in October 2007, and states the Coal Resources for the project area in accordance with the Chinese Resource and Reserve Standard.

A preliminary drilling exploration program conducted by the 104th Exploration Team of Inner Mongolia has clearly demonstrated that the Bayanhushuo area is characterized by three, laterally extensive, master coal-bearing intervals. All three master seams have economic potential for extraction using underground mining methods. A fourth master seam interval is only developed in the south-western sector. However, the main interest is the second master seam which reaches a gross coal thickness of 19.60m (14.95m net) in the south-western zone of the project area.

The 2007 exploration program comprised of 29 boreholes: 10 in the northern sector and 19 in the southern. These boreholes targeted the three master seams; where samples from 18 boreholes were analysed: 4 from the northern sector and 14 from the southern. The obtained data has delineated a prospective area in the southern sector of the Bayanhushuo Project.

The three major coal seam groups range in thickness from < 1 to 19.60 metres (m) and based on the analytical results, the coal is suitable for the Chinese domestic thermal market. Importantly, the deposit is located proximal to well established rail, road and electrical infrastructure.

Based on the current drilling results, a Coal Resource has been estimated at a total of 434.77 Million tonnes (Mt) as shown in the following table.

	Category	Tonnage *(Mt)*
South	332	200.71
	333	171.24
	334	18.49
North	332	0
	333	22.10
	334	22.23
Sub-Total	332	200.71
	333	193.33
	334	40.72
Total		434.77

It should be recognised that the above estimates are in compliant with the Chinese resource reporting standard; however they cannot be reportable under the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) at this point in time.

A number of issues in terms of collection of borehole data has been raised with Kiu Hung. Notwithstanding these technical issues, the conclusions of this report recommend that, given the excellent potential for the Bayanhushuo Project to become an economic underground coal mine, further (i.e. JORC compliant) drilling should be conducted in order to provide sufficient detail for a final feasibility study for the project.

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DISCLAIMER

The opinions expressed in this review have been based on the information supplied to SRK Consulting by the 104th Exploration Team of Inner Mongolia. The opinions in this review are provided in response to a specific request from Kiu Hung to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

1 Introduction

SRK was commissioned by Kiu Hung to undertake an independent review of the Bayanhushuo Project in Inner Mongolia.

The purpose of the evaluation is to provide a technical report under the requirements of the listing rules of the Stock Exchange of Hong Kong Limited, which provides Kiu Hung with a clear and un-biased view of the asset and its future production potential. This review summarises the major findings of SRK study.

1.1 Statement of Qualification

The author of this report, Dr Per Michaelsen, is employed as Senior Consultant (Coal Geology) for SRK Consulting, B1408 COFCO Plaza, No. 8 Jianguomennei Dajie, Dongcheng District, Beijing China 100005. Dr Michaelsen has the following qualifications and relevant experience in the reporting of Coal Resources:

- Graduate of Geologisk Centralinstitut, University of Copenhagen with a Bachelor of Science (B.Sc.) degree in Geology (1993).
- Post Graduate of James Cook University with a Bachelor of Science (Honours) degree in Geology (1994).
- Doctor of Philosophy from Coal Seam Gas Research Institute, James Cook University in sedimentology and sequence stratigraphy of coal-bearing Permian strata (1999).
- Coal Geology Post Doc Research Fellow at James Cook University (1999-2002)
- Publication of coal geology contributions in international journals (e.g. International Journal of Coal Geology, Journal of Sedimentary Research and Sedimentary Geology).
- Reviewer for international journals (e.g. International Journal of Coal Geology and Gondwana Research).

- Over 13 years experience as a coal geologist working with coal-bearing deposits in Australia, China and Mongolia, with professional field trips to coal basins in Indonesia and South Africa.

- Technical experience includes activities in exploration and the evaluation of coal deposits.

- Professional qualifications include Member of the Australasian Institute of Mining and Metallurgy (MAusIMM) and Member of International Association of Sedimentologists (IAS).

1.2 Statement of Independence

Neither SRK nor any of the authors of this Review have any material present or contingent interest in the outcome of this report, nor do they have any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK's fee for completing this Review is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the report.

None of SRK or any authors of this report has any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of Kiu Hung or any of its subsidiaries, or was proposed to be acquired, or disposed of by, or leased to any member of Kiu Hung or any of its subsidiaries within the two years immediately proceeding the issue of this circular.

None of SRK or any authors of this report has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

2 Property Description and Location

2.1 The Mineral Asset

The coal tenement, known as Bayanhushuo project, is located in Inner Mongolia (Table 2-1). The project area is situated 40 Km west of Xi Ujimqin Banner and approximately 145 kilometres (km) northeast of the regional centre of Xinlinhaote. The Chifeng – Daban – BayanHua Railway and the Chifeng – Daban – BayanHua Superhighway (i.e. currently under construction) run through the town of Bayan Ul Town of Xi Ujimqin Banner

The area has undergone preliminary exploration drilling and the results indicate a potential lignite mine amenable to underground mining methods.

The lignite is well suited for the local thermal coal market, with a current market price at pit of approximately 190 RMB/tonne.

2.2 Exploration Tenement

The Chinese Government has issued exploration license to Tongliao Hengyuan Mining Company Ltd. The exploration license certificate numbers is 1525000510139, and is valid for the period commencing 4th July 2005 until 4th July 2008.

The exploration tenement extent 11.15km (north-south) and 4.63km (east-west), and covers a total area of 51.34 square km (km^2). The tenement is delineated by the coordinates in Table 2-1.

Table 2-1: Tenement Coordinates for Bayanhushuo Project

No. of Flex Points	Geodetic Coordinate		Plane Coordinate	
	E	Y	N	X
1	117°12’00”	44°34’00”	NA	NA
2	117°12’00”	44°40’00”	NA	NA
3	117°15’30”	44°40’00”	NA	NA
4	117°15’30”	44°34’00”	NA	NA

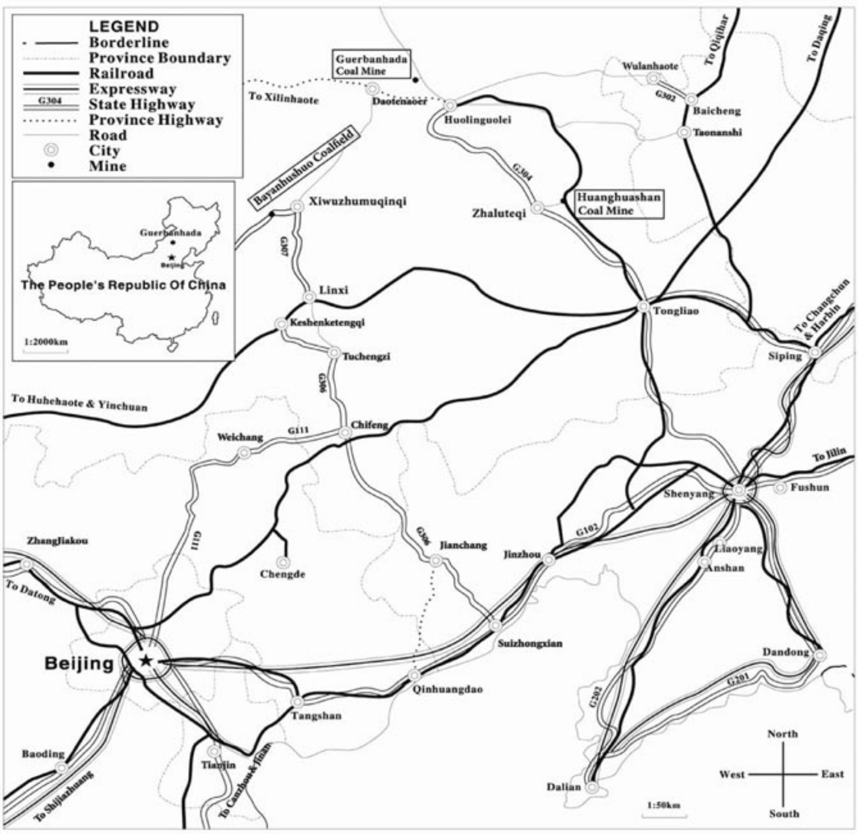

Figure 2-1: Location of the Bayanhushuo Project

3 Accessibility, Climate, Local Resources, Infrastructure and Physiography

The Bayanhushuo Coalfield is located about 40 Km north of Xi Ujimqin Banner in the Autonomous Region of Inner Mongolia, it is administratively subordinate to Bayan Huxu Township in the Xi Ujimqin Banner (Figure 2-1).

The project area is located in the southwestern sector of the Bayan Huxu Basin. The geographical coordinates are 116°45'00" – 117°40'00"E and 44°30'00" – 45°00'00"N. The strike length of the Bayan Huxu Basin is approximately 85km, the maximum width is 30km, the minimum width is 16 Km, with an average of 23km. This coal basin occupies a total area of 1955km^2.

There are multiple unpaved roads passing through the Bayanhushuo project area which is connected with the highway to the regional centres of Xilinhot and Chifeng, which have airports. The Bayanhushuo project area is located approximately 130km northeast of Xilinhot and 360km from Chifeng (Figure 2-1).

By the end of 2002 a total of 71,000 people lived in the Xi Ujimqin Banner. The GDP of the Banner reached approximately 730 million RMB by the end of 2002.

The Bayan Huxu Basin is located on the Inner Mongolian plateau, where the sea level elevation generally ranges from 980 – 1100m, the summit of the plateau is Bayan Emoliang which reaches 1126m. A large part of this region is characterized by grassland, however, there is a east-west oriented dune belt in the southern sector which covers about 25% of the basin. The major rivers Ih Jirin Gol and Bag Jirin Gol flow from south towards the north, in the middle part they deviate to the east with swampy conditions developed in this part of the river valley.

The 51.34 km^2 large project area is generally flat with an elevation difference of 54m. Across the license area the topography ranges from 1019m RL to 1073m RL above sea level. The northern and southern area is covered by grassy vegetation in sufficient quantities for the grazing by sheep. The central area is covered by gentle sand dunes.

The region is considered to have a dry continental climate. The annual rainfall ranges from 205 to 310mm (average of 279.5mm), predominantly falling between June and August. The annual evaporation is 1687.8mm. The evaporation peaks in May with a maximum of 300mm.

North-westerly winds prevail in winter, and south-westerly winds prevail in spring. The mean annual wind speed is 3.8 – 4.3m/s, the maximum wind speed is 34m/s, the number of days with gale-force winds is 13 on average in May, with a maximum of 24 days.

According to meteorological data statistics from the Xi Ujimqin Banner weather station from the preceding 21 years, the average air temperature in January is -18.8C, the average air temperature in July is 20.1C, and the maximum air temperature is 36.6C. The winter season commences in early September, with the last frost season in late May. The average frost-free period is 102 days. The maximum frozen soil depth is 2.30m.

The region lies in a seismically inactive zone, which is important in terms of potential underground mining operations in the future.

4 Geological Setting

The coal-bearing Bayan Huxu Basin extends approximately 85km north-south, with a width of 16 – 30km. It occupies a total area of 1955km^2. The strata from the late Jurassic to early Cretaceous are mostly covered by Tertiary and Quarternary cover (Table 3-1). As such, the Bayanhushuo area is blanketed by Neogene and Quaternary coal-barren sediments. Depth of weathering is approximately 10 m within the project area.

The coal-bearing Cretaceous deposits are underlain by the Upper Jurassic Hinggan Ling Group (J3). This group is characterized by medium-basic to acid volcanic rocks, composed of yellow-brown amygdaloidal basalt, grey-black basalt, red, purple and grey andesite, as well as rhyolitic tuff and tuffaceous volcanic breccia. The thickness reaches over 4000m.

The coal-bearing deposits in the Bayanhushuo project area developed during the Early Cretaceous. The Bayan Hua Formation reaches a thickness of over 1000m. It is unconformable with the Late Jurassic Higgan Ling Group. The Bayan Hua Formation is overlain by an Upper Cretaceous (K_2) series of terrestrial facies, composed of red and celadon conglomerate, sandstone, conglomeratic silt stone, mudstone and marl.

The contact is characterized by a pseudoconformity relationship with the Bayan Hua Formation in downfaulted parts of the basin, the fracture at basin rim is sheltered with unconformable overlap on old stratum. It contains carbonization phytoclasts and incomplete phytolite. In the upper part calcareous sandstone and marl interlayer, it is characterized by fossils of fresh water animals, such as brachiopods, bivalves and gastropods. The thickness of the Upper Cretaceous strata average 380 m in the Bayan Huxu Basin, however, in the project area it is only 47 – 260m thick (Table 4-1). The Upper Cretaceous system is covered by Tertiary (N_2) and Quaternary sediments.

Table 4-1: Stratigraphic Sequence for Bayan Huxu Basin

Stratigraphic Unit	Thickness *(m)*
Quaternary	2.02 – 27.35
Tertiary (N_2)	9.90 – 111.58
Upper Cretaceous (K_2)	46.55 – 271.1
Lower Cretaceous Bayan Hua Formation (K_{1b})	277.56 – 542.70
Middle Jurassic Hinggan Ling Group (J_3)	4000
Lower – Middle Jurassic Altan Hill Group	300
Upper Permian (P_2)	6,300
Lower Permian (P_1)	12,600

4.1 The Lower Cretaceous Coal-Bearing Bayan Hua Formation (K_{1b})

The Bayan Hua depositional environments were characterized by terrestrial fluvio-lacustrine systems. The lower part is dominated by deep water lacustrine facies, whereas the middle part is characterized by coal-bearing lacustrine-swamp facies, and the upper part by fluvial facies.

The lithology of the lower part is mainly interbedded mudstone, siltstone and fine-grained sandstone; the middle part is dominated by mudstone interbedded with siltstone, carbonaceous claystone and coal, the mudstone and siltstone contain large quantities of phytoclasts fossils.

The middle part of the Bayan Hua Formation is characterized by 4 master coal-bearing groups, with up to 22 individual coal seams, including 11 economical coal seams. The following three master coal-bearing groups are best developed within the project area: Group 1, 2 and 4. Group 2 contains the most economical coal seams (i.e. up to 19.60m thick lateral continuous seams). Group 3 coal seams are only developed in the southwestern part of the project area. The maximum coal-bearing thickness is 71.54m within the project area.

The Bayan Hua Formation is overlain by the coal-barren Upper Cretaceous series (K_2), which is extensively distributed throughout the region. It is predominantly composed of conglomerate, sandstone, siltstone and mudstone. It also contains carbonized phytoclasts. The thickness of the series in the project area is 46.55 – 271.1m (drill hole H3-3).

The Upper Cretaceous deposits are overlain by Tertiary (N_2) deposits. The contact between the Teriary and Cretaceous sediments is characterized by an angular unconformity. The semi-consolidated Tertiary deposits consist of conglomerate, sandstone and claystone. The coarse-grained deposits are characterized by poor sorting and clasts showing low-spherocity, indicating limited transport from the sedimentary source. The conglomerate is composed of recycled sedimentary clasts (e.g. slate, sandstone and mudstone shivers). The upper part is characterized by sandy mudstone and mudstone, which contain calcareous concretions in places. The thickness of the Tertiary deposits ranges from 9.90 – 111.58m.

The Tertiary deposits are in turn overlain by unconsolidated Quaternary sediments. The thickness of the deposits, range from 2.02 – 27.35m, within the project area. The sediments consist of brownish-yellow fine-medium sand, medium sand, locally with clay. The prairie humus soil horizon does not exceed 1 m in thickness. There is a wind-blown sand belt in the middle part of the project area, composed of fine, well-sorted sand and silt.

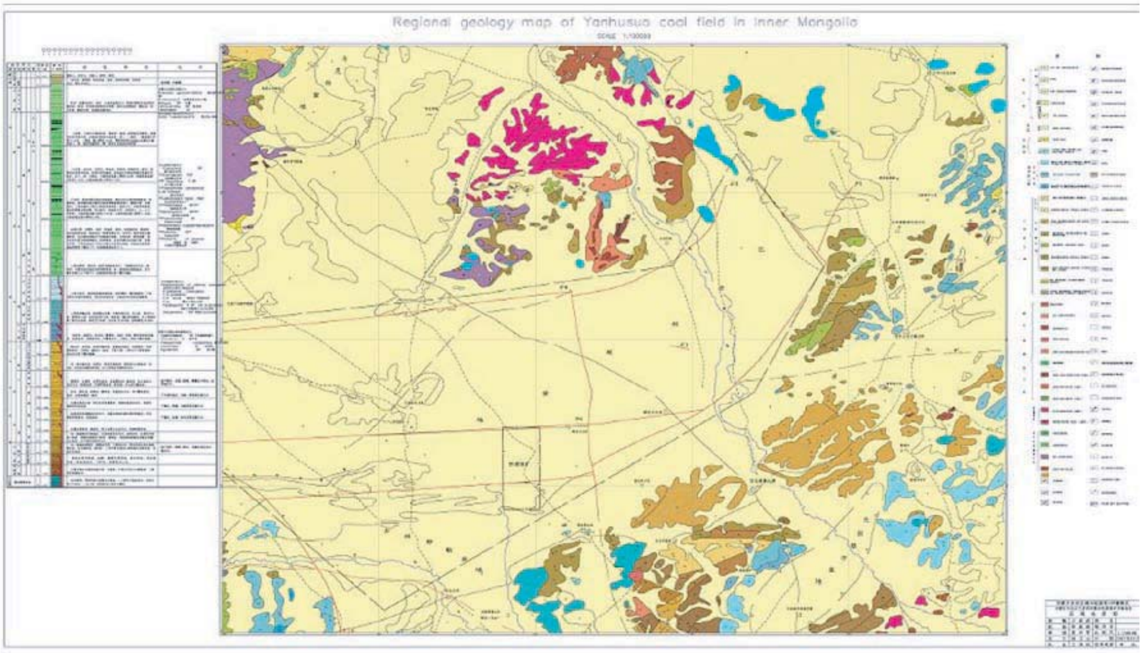

Figure 4-1: Geological Map of the Region around the Bayanhushuo Deposit

5 Local Geology

The Bayanhushuo Project Area is located within the coal-bearing Bayan Huxu Basin. The basin extends approximately 85km north-south, with a width of approximately 16 – 30km, occupying an area of approximately 1955km^2.

The Bayan Huxu Basin is an isolated faulted basin developed subsequent to a period of high volcanic activity in Northeast China. This area contains the highest number of coal basins and resources with the best coal quality in Northeastern China (Zhuang et al., 2006).

These faulted basins are isolated; however, their comparable depositional sequences indicate a similar and possibly a synchroneous tectonic evolution as reported by Li et al. (1988). In this context Querol et al. (1997) found the same facies mosaic in many of the faulted basins, with alluvial fan units along marginal contemporaneous faults, and with coal deposits developed in more distal areas.

Recent exploration drilling in the project area has uncovered four main tectonic structures:

1. A uniclinal structure in the northern sector which trend northeast-southwest (N50°) and dipping towards the south at 40°.

2. A uniclinal structure in the southern sector which is trending approximately east-west (N80°) and dipping towards the south at 9°.

3. Fault F11 is a significant basin-rim structure developed in the northern sector of the project area and trends northeast-southwest (N65-80°) and dipping towards the north at 10-25°. The vertical displacement is greater than 200m.

4. Fault F21 is another significant structure developed in the southern sector of the project area and trends northeast-southwest and dipping towards the southeast. The vertical displacement is similar to F11 (i.e. greater than 200m).

It is highlighted here that the structural setting is very similar to the high-germanium Shengali coal field located some 13km west of Xilinhaote (Zhuang et al., 2006). Here a resource of 1600 tonnes of Germanium has been reported from the upper coal-bearing group (i.e. Seam 6) of the Bayan Hua Formation. It is worth noting that the Germanium is not uniformly developed, in fact it is concentrated in a fan-shaped lobe in-between to two major faults similar to F11 and F21. This distribution could well suggest syn-sedimentary Ge tapping along the border of the basin.

The Early Cretaceous coal-bearing basins in Northeastern China may be regarded as important germanium-bearing deposits (e.g. Wu et al., 2002; Zhuang et al., 2006). Furthermore, work by Qi et al. (2007) suggests that the lignite from the Shengali Coalfield may contain considerable Ag mineralization.

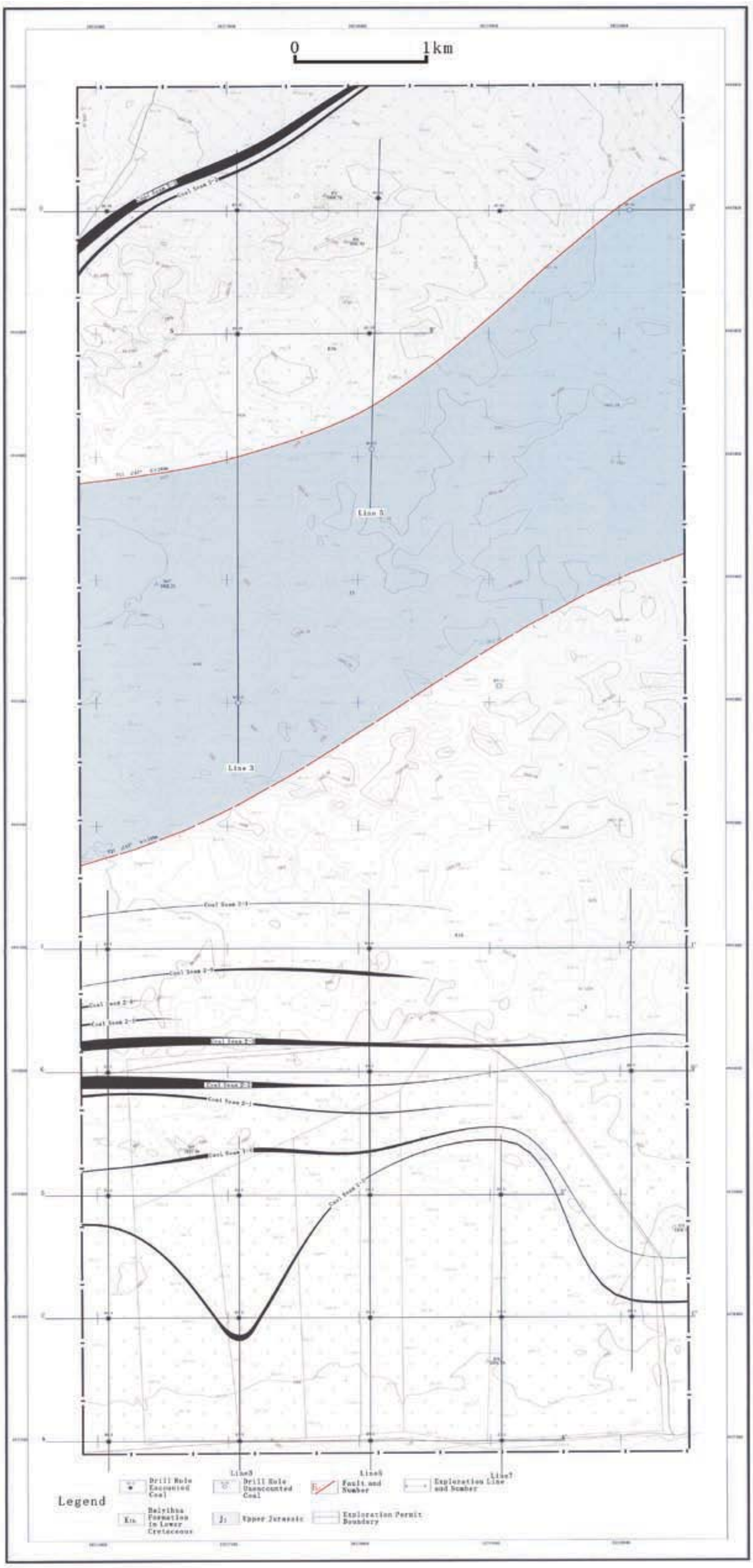

Figure 5-1: Bayanhushuo Exploration Tenement

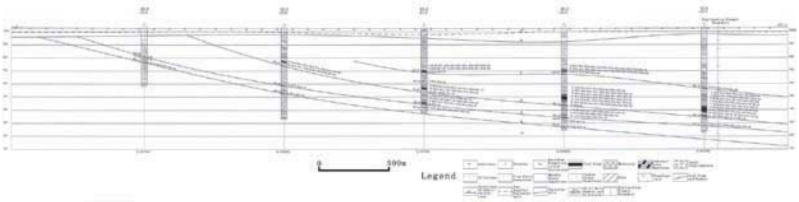

Figure 5-2: North-South Section (5-5') through the Bayanhushuo Project Area

6 Coal Geology

There are four master coal-bearing intervals in the Early Cretaceous Bayan Hua Formation which range from <1 to 19.60m in gross thickness. The coal-bearing master intervals may consist of a single seam or a number of seams which are within vertical succession and which are laterally interconnected. In places there are up to 22 individual coal seams, including 11 economical seams.

The best developed master coal-bearing intervals within the project area are: intervals 1 (top), 2 and 4 (bottom). Interval 2 contains the most economical coal seams (i.e. thick lateral continuous seams). Interval 3 coal seams are only sparsely developed in the southwestern part of the project area.

The two major faults (i.e. F_{11} and F_{21}) in the central part of the project area interrupt the lateral continuation of the Early Cretaceous coal seams. As such, the project area has been divided into two coal bearing areas: 1) a northern coal-bearing area and 2) a southern coal-bearing area. The two areas are not fully identical as the two major faults were apparently contemporaneous with the development of the peat environment (i.e. syn-sedimentary).

6.1 Coal-Bearing Northern Zone

The northern area only contains the upper master coal-bearing interval (i.e. interval 2). This interval contains two economical recoverable coal beds: seams 2-2 and 2-3. The depth of these coal seams range from 164.25 – 242.95m, and the maximum thickness of the coal-bearing strata is 359.20m, with an average of 235.64m. The total thickness of the coal seams range from 0.80 – 7.80m, with an average of 4.29m. The average coal seam ratio in this area is just 1.8%.

The two coal seams reach a maximum thickness in the central part of the north area, within a NNE zone parallel to the F_{11} fault. The maximum thickness of the coal beds is intersected in drillhole H3-21, where the accumulated coal thickness is 7.80m. The seams thin towards the northwest where they are gradually washed by the upper Cretaceous series. The coal beds in this area were developed at the edge of the coal-bearing basin.

6.2 Coal-Bearing Southern Zone

The southern area includes all four master coal-bearing intervals, with a total of 11 economical coal seams. Master coal-bearing interval 2 is the best developed, with subordinate coal seams in intervals 1 and 4, interval 3 is only developed in the southwestern sector.

The depth of the coal seams range from 171.65m – 840.25m, the thickness of coal measures, confirmed by recent exploration drilling, varies from 277.56 – 542.70m, with an average of 393.74m.

The total thickness of coal ranges from 0.00 – 76.90m, with an average of 30.83m. The average coal ratio is 7.8%, as such, significantly higher than in the northern area (i.e. 1.8%).

The maximum development of coal seams is in a zone located in the southwestern part, with a total coal thickness of 76.90m (control point drill hole H1-1).

Isopach data and cross-sections show, that the coal seams diverge and thin rapidly towards the north and east, or are gradually washed out by Upper Cretaceous sediments. The interburden between coal seams also increase towards the north and east.

6.3 Coal-Bearing Depositional System

During deposition of the Early Cretaceous Bayanhushuo deposit, four phases of peat deposits accumulated in a relatively small fault controlled basin. The depositional system would probably have covered around 2000 km^2 at the time. The coal seams did not accumulate during uniform depositional conditions. Indeed, the sedimentary record clearly shows four coal-bearing cyclothems. On a global scale, abundant evidence from the sedimentary record shows that the Cretaceous System was characterized by climatic instability, a result of orbital climatic forcing.

The four master coal intervals probably represent 100 – 400k Milankovitch cyclitity, whereas the thin clastic partings associated with the four master coal-bearing intervals probably represent superimposed high-order cyclicity (20ky).

Natural gamma logs for the entire Bayan Hua Formation clearly shows a significant decrease in the sandstone/mudstone ratio at the base of seam 2-8. This is in turn interpreted here as the commencement of more favourable peat forming depositional conditions (i.e. high energy environment to lower energy). Indeed, this vertical facies succession from coarse-grained sediments at the bottom to finer-grained coal-bearing deposits at the top is common within the Mesozoic fault bounded coal basins in Northeast China. Initial rapid uplift and clastic sediment aggradation was followed by decreasing clastic sediment influx, steady subsidence and hence more favourable conditions for peat mire development and preservation (i.e. as coal seams).

It is considered here that the sedimentary record preserved at Bayanhushuo represents initially a relatively rapidly aggrading clastic depositional system where the coal seams were developed during relative interruptions of clastic sediment supply. This was succeeded by stable tectonic conditions where coal formed during periods with high water tables.

Coal accumulation and preservation is a fine balance between creation of accommodation space and clastic sediment supply. The up to 17m thick 2-2 seam preserved at Bayanhushuo clearly demonstrates a relatively stable tectonic setting during deposition where peat accumulation kept up with subsidence. Nonetheless, the asymmetric nature of the coal seams, indicate syn-tectonic deposition, where the thickest accumulations of coal occurred in the depocentre of a peat swamp during a period of tectonic compression.

The coals-bearing strata at Bayanhushuo have thus preserved a record of the sedimentological and tectonic conditions which prevailed during deposition. As such, the structure of the master seams is relatively simple in the basinal depocentre (i.e. southwest). However, towards the edges of the basin (i.e. north and east) the seams split rapidly. The thick coal seams are characterized by relatively low-ash content, and as expected, high ash in split zones and within thin coal along the flanks of the faultbasin, and as such reflecting the palaeo-hydrodynamic regime of the depositional system (i.e. low to high energy depositional environment).

Tectonic dynamics are considered here as the primary control on the sequence architecture of the Bayan Hua Formation, while the internal stratigraphic architecture, however, is a result of a combination of sea level, tectonic, and autogenic controls.

6.4 Master Coal Seams

A total of four master coal-bearing intervals have been differentiated from the Early Cretaceous Bayan Hua Formation within the project area: 1 (top), 2, 3 and 4 (base). The coal-bearing master intervals may consist of a single seam or a number of seams which are within vertical succession and which are laterally interconnected. In places there are up to 22 individual coal seams, including 11 economical seams. The following represents an overview of the four master coal intervals.

1. Up to six coal seams are preserved from this upper coal interval: seams 1-1, 1-2, 1-3, 1-4, 1-5 and 1-6. These seams range in net thickness from 1.55 – 7.55m. The best developed seam is 1-3 which has a thickness of 1.7 – 7.55m. It is developed in the southwestern part of the project area.

2. Interval 2 contains the most economical coal horizons: seams 2-1, 2-2, 2-3, 2-4, 2-5, 2-6, 2-7, 2-8, 2-9 and 2-10. These 10 coal seams range in net thickness from 1.50 – 14.95m. The best developed seam is the thick 2-2 coal seam, which was intersected by 21 boreholes during the exploration programme. Seam 2-2 has a thickness of 1.50 – 14.95m. Interval 2 coals are characterized by a maximum development in the southwestern part of the project area, the seams thins to the north and east.

3. Interval 3 coal seams are only developed in the southwestern sector of the project area. Two seams were intersected in a total of 4 boreholes during recent exploration drilling: seams 3-1 and 3-2. The net thickness of the seams range from 1.50 – 1.70m.

4. Up to four coal seams are developed in this lower coal interval: seams 4-1, 4-2, 4-3 and 4-4. These seams range in net thickness from 0.25 – 9.50m. The best developed seam is 4-3 which has a thickness of 0.25 – 9.5m.

The following eleven coal seams are the most economical within the project area:

1-3, 1-6, 2-1, 2-2, 2-3, 2-5, 2-6, 2-8, 3-1, 4-1 and 4-3 (Table 6-1)

Table 6-1: Economical Coal Seams within the Bayanhushuo Area

Coal Seam	Net Coal Thickness (m)	Depth of coal seam (m)
1-3	1.70 – 7.75 (av. 5.23)	286.25 – 491.45
1-6	1.55 – 5.05 (av. 3.13)	285.90 – 472.70
2-1	1.55 – 7.40 (av. 4.24)	376.00 – 632.25
2-2	10.10 – 14.95 (av. 12.57)	171.65 – 649.65
2-3	1.60 – 10.75 (av 5.47)	180.30 – 670.80
2-5	1.75 – 2.55 (av 2.19)	245.95 – 639.20
2-6	1.50 – 7.10 (av 4.08)	257.65 – 646.65
2-8	1.65 – 3.20 (av. 2.39)	277.60 – 702.50
3-1	1.50 – 1.85 (av 1.66)	202.25 – 766.00
4-1	2.00 – 9.50 (av. 4.17)	236.80 – 809.65
4-3	1.50 – 2.60 (av. 1.91)	377.25 – 840.25

6.5 *Coal Characteristics*

The Early Cretaceous lignite seams are characterized by the following characteristics:

- Maximum gross thickness of 19.60m (14.95m net)
- Moisture (ad) of 4.32 – 19.69%

- Ash content (ad) of 8.89 – 38.46%
- Sulphur content (ad) of 0.14 – 1.91%
- Phosphorus content (d) of 0.006 – 0.086%,
- Calorific Value of 14.62 – 23.02MJ/kg (ad) and 15.28 – 25.76MJ/kg (d)

The 11 economical coal seams preserved at Bayanhushuo would produce medium-high ash, medium sulphur, low phosphor coal with medium-high caloric quality, and as such, suitable for the domestic thermal market. In terms of the Chinese National Coal Classification Standard the coal category is No. 2 (brown coal). The caloric value of the coal seams from the southern and northern zones increases with depth, and decreases with higher ash.

The spatial distribution of sulphur within the four master coal intervals in the Bayanhushuo area shows a marked decrease upwards in the stratigraphic succession, and marked zig-zag (high-low) distribution from seam 4-3 to 2-3. However, subsequent to the deposition of the precursor of seam 2-4 the sulphur levels drop considerably. As a general rule, sulphur levels at Bayanhushuo increase towards the southwest. High sulphur levels in coal seams generally suggest a marine influence on coal development. The presence of shellbeds above some coal seams, as observed in the field, supports a marine influence to the southwest, which in turn controlled the development of the coal seams. The sulphur record suggest 7 sea-level cycles, with coal developing during transgressive and regressive events (i.e. couplets). Coal seams 2-4, 2-6, 2-9 and 4-3 are characterized by medium to high sulphur levels and are considered here as transgressive coals, whereas 2-3, 2-5, 2-7, 3-1 are regressive. The South China Sea probably extended further northeast during the Early Cretaceous and as such influenced coal deposition in Northeast China.

The coal was studied and photo-documented in the field, it is black in colour and mainly dull with bright bands, as such, typical of thermal coal. The current pricing for this coal is approximately 190 RMB/tonne in Inner Mongolia.

78 samples were tested for profitable minerals: Germanium, Galium and Vanadium. The results indicate that levels do not reach industrial grade. However, the recent study by Zhuang et al. (2006) clearly demonstrates that sampling should be strictly scientifically targeted. In this context it is worth noting that Germanium and Vanadium were only tested in the northern part of the Bayanhushuo project area, and Galium was only sampled from the southern zone.

6.6 Ash and Washability

The spatial distribution of ash within the coal seams at Bayanhushuo is complex. On average the northern zone is characterized by high ash coals. The minimum ash yield in this area is in the coal seam 2-2 with a value of 24.31%. The maximum value is in seam 2-8 coal with 35.97%. The average value is 31.33%. The ash distribution in the southern area is also complex. The minimum value in this zone is in seam 1-2 with a value of 8.89. The maximum value is in seam 2-7 with 38.46%. The average value is 25.58%. The average value in the southern zone is medium ash coal as graded by the GB/T15224 1-2004 standard. Seam 1-2 is extra low ash coal, seam 1-1 is low ash coal, coal 1-3, 1-4, 1-6, 2-1, 2-2, 2-3, 2-6, 2-8, 2-9, 3-1 and 4-1 are medium ash coal, coal 1-5, 2-4, 2-5, 2-7, 4-2 and 4-3 are high ash coal.

Three coal samples from three stratigraphically different coal seams were selected for the washability testing. The "GB 478-87 Method for float and sink analysis" and the "MT320-93 Method for washability testing of coal core samples" were strictly followed, and evaluated by the GB/T 16417-1996 "Method for evaluating the washability of coal".

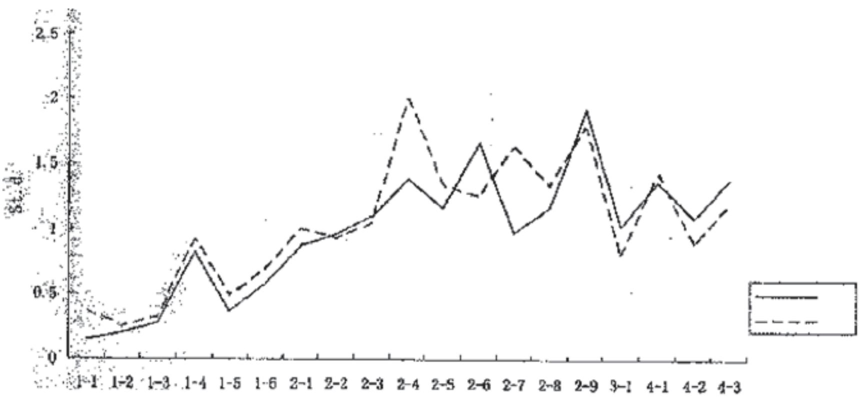

Figure 6-1: Sulphur Content of Coal Seams in the Southern Bayanhushuo Area

The test results from a coal sample from seam 1-6 shows that the ash value varies and as a consequence the washability grade also differs:

- When the ash is 12.0% it is extremely difficult to wash
- When the ash is 14.0% it is relatively difficult to wash
- When the ash is 16.0% it is easy to wash

One sample from seam 2-3 shows that:

- When the ash is 14.0% it is extremely difficult to wash
- When the ash is 16.0% it is difficult to wash
- When the ash is 18.0% it is moderately difficult to wash

One sample from seam 2-8 shows that:

- When the ash is 16.0% it is extremely difficult to wash
- When the ash is 18.0% it is difficult to wash
- When the ash is 20.0% it is moderately difficult to wash

Relative Density data shows values from 1.37 – 1.54gm/cc.

Coal quality analysis was conducted at one laboratory:

- The laboratory of the Institute of the Coalfield Geological Bureau, Inner Mongolia.

Table 6-2: Calorific Values (MJ/kg) from the Southern Bayanhushuo Area

Coal Seam	Washing status	$Q_{gr,ad}$	$Q_{nett,d}$	$Q_{gr,d}$	$Q_{gr,maf}$
1-1	Crude	22.13	23.53	24.51	
	Float	20.32	17.26	23.72	21.83
1-2	Crude	23.02	24.76	25.76	
	Float	20.96	26.01	23.32	21.94
1-3	Crude	19.57	21.73	22.58	
	Float	22.55	24.84	25.81	22.41
1-4	Crude	19.76	20.42	21.25	
	Float	24.28	25.04	26.03	21.86
1-5	Crude	18.08	18.92	19.73	
	Float	23.23	25.00	25.82	22.52
1-6	Crude	18.70	20.11	20.96	
	Float	22.25	24.97	25.35	22.50
2-1	Crude	19.27	20.83	22.52	
	Float	23.21	25.59	25.86	22.36
2-2	Crude	19.04	20.43	22.08	
	Float	23.58	25.47	25.83	22.52
2-3	Crude	18.62	20.15	21.67	
	Float	23.45	23.27	26.09	22.44
2-4	Crude	16.95	17.40	18.27	
	Float	25.65	25.91	26.93	23.37
2-5	Crude	21.20	18.66	19.46	
	Float	23.97	17.99	25.10	22.10
2-6	Crude	19.32	20.77	21.64	
	Float	24.21	25.41	26.08	22.34
2-7	Crude	14.62	14.54	15.28	
	Float	23.74	24.52	25.51	23.76
2-8	Crude	18.86	19.95	21.35	
	Float	23.26	25.07	25.66	22.20
2-9	Crude	19.11	20.29	25.36	
	Float	23.60	25.69	28.41	23.07
3-1	Crude	23.04	24.26	25.22	
	Float	25.32	26.57	26.60	
4-1	Crude	19.96	21.14	22.00	
	Float	24.29	25.39	25.70	21.75
4-2	Crude	18.85	20.04	20.86	
	Float	24.69	26.39	27.38	
4-3	Crude	18.32	19.07	19.86	
	Float	23.46	25.14	26.13	22.01

7 Exploration

From June 2007 to October 2007 the 104th Exploration Team of Inner Mongolia completed a drilling program within the Bayanhushuo area. A total of 29 boreholes, with a combined length of 16,000m, were drilled along east-west and north-south transects which were spaced 1 km apart.

The 29 holes were drilled from the surface using up to 8 Russian manufactured drilling rigs (see Figure 10-1). Each hole was completed within 10-40 days. Coal core recovery ranged from 81 to 100%, however, the quality of the core appears to be somewhat poor. All 29 holes were geophysically logged.

No cores or samples have been preserved from this program. Borehole collar locations were recorded twice by a Trimble 5700 GPS. No topographical survey data are available. The borehole collar coordinates were provided in the report. Downhole survey data are printed at the header of each borehole log but no method of description and reference to use tool is available.

SRK visited 3 drill sites on 8th October 2007 (H4-2, H4-4 and H3-1), and confirmed the locations with a Garmin Etrex Vista GPS.

The exploration program complied with Chinese standards.

8 Drilling

Drilling was conducted along 5 north-south trending grid lines (i.e. #1, 3, 5, 7 and 9). The grid lines were spaced 1km apart. Boreholes were generally located 1km apart along each grid line, however, a few were spaced 2km apart. All 29 boreholes were fully cored from the surface. The Quaternary sediments were apparently not cased off. The borehole diameter was 89mm, while the core size was 75mm.

The two drill sites inspected by SRK were tidy and well organised. The drilling rigs are of the old types which use single tube core barrels, which have a significant impact on core recovery. Core recovery from intercepted coal intervals ranges between 88 to 100% according to data provided.

9 Sampling Method and Approach

There was no coal sampling at the time of inspecting the boreholes.

10 Sample Preparation, Analyses and Security

Coal samples were analysed in the laboratory of the Institute of the Coalfield Geological Bureau, Inner Mongolia, which is certified by the Chinese Government. It is important to note that the results for the inherent moisture of the coal could be somewhat higher due to the current sampling procedures. No record of duplicates for external laboratory checks or pulp stored for future revision is available.

11 Data Verification

The data used in this report was obtained from 104th Exploration Team of Inner Mongolia. Discussions between the exploration team and SRK confirmed the information concerning the drilling data collection and collation were not completely in accordance with current internationally acceptable standards.

A site visit was conducted by SRK to the exploration office where discussions were held with the geologists responsible for the data collection during the drilling program.

A site visit to the Bayanhushuo project area was also conducted by SRK on 8th October 2007 (Figure 11-1).

Figure 11-1: SRK Inspection of Bayanhushuo Well Site H4-4

12 Adjacent Properties

No adjacent properties were inspected for this study.

13 Mineral Resource and Mineral Reserve Estimates

SRK has visited and reviewed the project area as discussed in relevant sections of this Report. In SRK's opinion, there is a very good geological understanding of this project to indicate that the exploration target is sufficiently prospective to warrant further investigations and expenditure. Here it is necessary to mention that from a geological point of view the resource is prospective, but further utilisation of resource or extraction would need attention. The resource is covered by Neogene and Upper Cretaceous sediment cover, out of which Neogene is prone to be a rich aquifer. Average depth of Neogene is about 100m, which means 1atm water pressure at contact of Neogene and Upper Cretaceous. Upper Cretaceous cover is on average 350m thick and it might add another 3.5atm of water pressure in the mine, before the mine enters coal-bearing strata.

In addition to that underground mining methods suitable for seams as thick as 19 m have a very low recovery factor. Considering the rank of coal there needs to be verified gas (methane) of coal. The selfcombustion properties of coal would have crucial impact on mining, because the distribution of individual coal seams in the master intervals indicate that there would have to be left substantial coal in protecting pillars and panels and this coal would be exposed to mine atmosphere, and therefore oxidation.

SRK has carried out a review of the resources as provided by the 104th Exploration Brigade for the Bayanhushuo project and is satisfied that they have been calculated in adherence to the requirements as prescribed by the Chinese Resource and Reserve Standard.

However thorough inspection of cross sections and resource maps of individual coal seams revealed that there appears to be problems with individual coal seam correlation at borehole 9-3, which would have impact on resource estimate of coal seams 2-1, 2-2, 2-3 and 2-8. Also it has been noted that extrapolation of 334 resource at seams 1-6, 4-1 and 4-3 in the south area is exaggerated in respect of geological setting of the coal seams. The correct correlation would be possible by comparison of sulphure content of coal, because seams 2-2 and 2-3 have higher sulphur content in comparison with the others in the area, but no sample from borehole 9-3 was analysed for sulphur.

The 104th Exploration Team of Inner Mongolia calculated the Resource estimation using the C-GIS system to determine the area of the Resource blocks. The calculation of tonnage for each Resource block is derived from the product of the average seam thickness for the block, the area of the block and the density determined from samples of that individual seam.`

SRK has reviewed the Resource estimates for both the Southern and Northern areas of the deposit as presented in Table 13-2.

The resource estimate check included thorough check of borehole log and comparison of data recorded by rig geologist with geophysical data. These checks were carried out against resource estimate input data. The individual seam resource estimate maps were checked against borehole input data and areas of each individual block were checked. Based on these check results individual seam resource estimate tables were checked and two calculation errors in the initial report were located in southern area of Bayanhushuo project, which now have been fixed and presented in the following tables.

Table 13-1: Estimate of Coal Resources for Bayanhushuo South

Coal Seam	Category	Area	Thickness	Bulk Density	Tonnage	Volume	Tonnage
		m^2	*m*	t/m^3	*t*	m^3	*Mt*
2-1	332	3,501,552	4.61	1.44	23,239,100	16,138,264	23.24
2-2	332	2,985,469	12.49	1.45	54,060,800	37,283,310	54.06
2-3	332	8,501,960	5.87	1.46	72,820,400	49,876,986	72.82
2-8	332	7,003,071	2.37	1.53	25,386,700	16,592,614	25.39
4-1	332	3,999,126	4.41	1.43	25,200,000	17,622,378	25.20
1-3	333	2,611,856	3.64	1.46	13,883,800	9,509,452	13.88
1-6	333	6,321,727	2.46	1.41	21,902,500	15,533,688	21.90
2-1	333	3,581,846	3.14	1.44	16,184,600	11,239,306	16.18
2-2	333	4,432,192	7.91	1.45	50,853,900	35,071,655	50.85
2-3	333	4,389,247	3.97	1.46	25,440,953	17,425,311	25.44
2-5	333	682,953	1.96	1.51	2,024,400	1,340,662	2.02
2-6	333	1,546,144	3.41	1.37	7,231,500	5,278,467	7.23
2-8	333	3,289,430	2.05	1.53	10,331,500	6,752,614	10.33
3-1	333	1,161,160	1.64	1.41	2,680,200	1,900,851	2.68
4-1	333	3,937,747	2.90	1.43	16,312,600	11,407,413	16.31
4-3	333	1,661,186	1.74	1.52	4,389,600	2,887,895	4.39
1-3	334	163,925	6.41	1.46	1,533,800	1,050,548	1.53
1-6	334	672,359	2.29	1.41	2,166,600	1,536,596	2.17
2-5	334	477,972	2.18	1.51	1,572,300	1,041,258	1.57
2-6	334	511,725	4.30	1.37	3,017,900	2,202,847	3.02
3-1	334	242,953	1.60	1.41	548,100	388,723	0.55
4-1	334	1,069,242	4.17	1.43	6,376,000	4,458,741	6.38
4-3	334	1,212,867	1.78	1.52	3,278,200	2,156,711	3.28
Subtotal	**332**	25,991,178			200,707,000	137,513,553	**200.71**
Subtotal	**333**	33,615,488			171,235,553	118,347,313	**171.24**
Subtotal	**334**	4,351,043			18,492,900	12,835,424	**18.49**
Total		**63,957,709**			**390,435,453**	**268,696,290**	**390.44**

Table 13-2: Estimate of Coal Resources for Bayanhushuo North

Coal Seam	Category	Area	Thickness	Bulk Density	Tonnage	Volume	Tonnage
		m^2	*m*	*t/m^3*	*t*	*m^3*	*Mt*
2-2	333	3,016,245	1.76	1.40	7,449,800	5,321,286	7.45
2-3	333	3,371,894	3.06	1.42	14,648,800	10,316,056	14.65
2-2	334	2,763,131	1.88	1.40	7,288,800	5,206,286	7.29
2-3	334	4,401,874	2.39	1.42	14,940,400	10,521,408	14.94
Subtotal	**333**	**6,388,139**			**22,098,600**	**15,637,342**	**22.10**
Subtotal	**334**	**7,165,005**			**22,229,200**	**15,727,694**	**22.23**
Total		**13,553,144**			**44,327,800**	**31,365,036**	**44.33**

Table 13-3: Summary of Resource Estimate for Bayanhushuo

	Category	Tonnage *(Mt)*
	332	200.71
South	333	171.24
	334	18.49
	332	0
North	333	22.10
	334	22.23
	332	200.71
Sub-Total	333	193.33
	334	40.72
Total		**434.76**

If SRK were to convert this Resource estimation to the Australian JORC Code standards, the result would be equivalent to Inferred Resource of 394.05Mt and Unclassified Resource of 40.72Mt.

Although the Bayanhushuo Project has an estimated coal resource of 434.77Mt in accordance with the Chinese resource reporting standard, the project is considered to be at the general survey stage of exploration at this point of time. Consequently, there is insufficient data to determine a mine design, a production policy or to estimate the percentage of proven mineable reserve out of such estimated coal resource. The amount of proven mineable reserve can only be estimated after completion of the detailed survey stage of exploration and performance of a full feasibility study.

14 Other Relevant Data and Information

No other relevant data and information were made available to SRK during and after the site visit.

15 Interpretation and Conclusions

The Bayanhushuo Project has been explored in detail to define a Resource of thermal coal suitable for the domestic market and amenable to underground mining methods.

The quality and sampling procedures of the boreholes do not meet international standard, however, the coal measure data are well documented and the interpretation of the geology and coal seams has been conducted to Chinese standards.

At this early stage of exploration activity, the classification of an Inferred Resource is encouraging to investors to commit to further development of the project. The next stage will aim to proving Measured and Indicated Resources in preparation for a full feasibility study.

Since the drilling to date has demonstrated the deposit has no igneous intrusions and only somewhat limited structural features, it can be concluded that there appears to be limited issues that may cause any significant impact on the mining of the coal.

The Bayanhushuo Project has an excellent potential to be developed into an economic underground lignite mine servicing the Chinese domestic market.

16 Recommendations

It is recommended that the current information for Bayanhushuo Project is of sufficient merit to undertake a detailed JORC compliant drilling program in order to prove the Coal Resources to higher categories. This drilling campaign is expected to fulfill the requirements for a final feasibility study and to test the sequence to basement to assess the coal seam quality and open cut potential at depth.

17 References

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18 Date and Signature

Dated this 31st day of January, 2008

Dr Per Michaelsen
Senior Consultant (Coal Geology)
SRK Consulting China Ltd

APPENDICES

Appendix 1: Chinese Resource and Reserve Standards

Categorisation of Mineral Resources and Ore Reserves

The system for the categorisation of mineral resources and ore reserves in China is in a period of transition which commenced in 1999. The traditional system, which is derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence – Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land and Resources (MLR) in 1999 uses three-dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form "123". This new system is derived from the UN Framework Classification proposed for international use. All new projects in China must comply with the new system. However, estimates and feasibility studies carried out before 1999 will have used the old system.

A broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following table.

JORC Code Resource Category	Chinese "Reserve" Category	
	Previous System	Current system
Measured	A	111, 111b, 121, 121b, 122, 122b, 2M11, 2M21, 2M22, 2S21, 331
Indicated	B	
Inferred	C	112, 112b, 2S11, 2S12, 2S22, 332
	D	113, 113b, 123, 123b, 333
Unclassified	N/A	334

Relationship between JORC Code and the Chinese Reserves System

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant Government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum 'industrial' or 'economic' grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of each category B, C & D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent "JORC Code type" category. The traditional Categories B, C & D are broadly equivalent to the 'Measured', 'Indicated', and 'Inferred' categories that are provided by the JORC Code and USBM/USGS systems used widely elsewhere in the world. In the JORC Code system the 'Measured Resource' category has the most confidence and the 'Inferred' category has the least confidence, based on the increasing levels of geological knowledge and continuity of mineralisation.

With regards to the new Chinese Category Scheme, as shown in the following table, the three numbers refer to economic, feasibility/mine design and geological degrees of confidence.

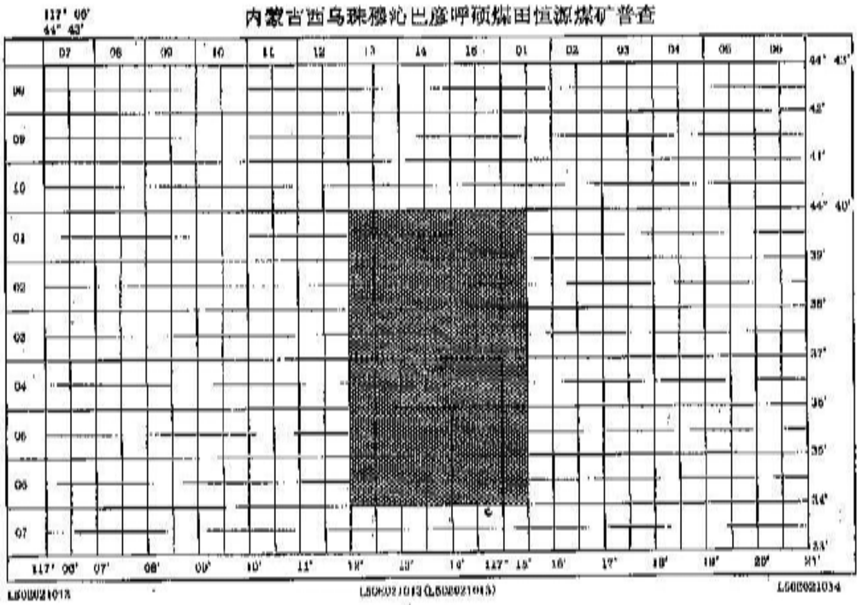
Definition of the new Chinese Category Scheme

Category	**Denoted**	**Comments**
Economic	1	Full Feasibility Study considering economic factors has been conducted
	2	Pre-feasibility to scoping study which generally considers economic factors has been conducted
	3	No pre-feasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in "2" by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping etc
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small-scale mapping)
	3	Minor work which projected throughout the area
	4	Review stage

Appendix 2: Glossary of Terms

Abbreviation	**Terminology**
^{0}	degrees
^{0}C	degrees Celsius
cm	centimetre/s
gm/cc	grams per cubic centimetre
J	Jurassic strata
JORC	Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
JORC Code	Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004)
JORC Committee	Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia
K	Cretaceous strata
Kiu Hung	Kiu Hung International Holdings Ltd
km	Kilometre/s
km^2	square kilometre/s
m	metre/s
Mg/kg	Megajoules/kilogram
mm	millimetre/s
Mt	Million tonne/s
N	Tertiary strata
Pliocene age, N_2	Tertiary sediments
Q_4	Quaternary
SRK	Steffen Robertson and Kirsten (Australasia) Pty Ltd trading as SRK Consulting
t	tonne/s

Appendix 3: Exploration License



根据国家法律、法规规定，经审查
合格，授予探矿权，特发此证。

证　　号：1525000510130

探 矿 权 人：通辽市恒源矿业有限责任公司

探矿权人地址：内蒙古通辽市鲁北镇

勘查项目名称：内蒙古西乌珠穆沁巴彦呼硕煤田恒源煤矿普查

地 理 位 置：内蒙古西乌珠穆沁巴彦呼硕苏木

图　幅　号：L50E021013, L50E021014

勘 查 面 积：51.34平方公里

有 效 期 限：2005年7月4日至2008年7月4日

勘 查 单 位：内蒙古自治区煤田地质局472勘探队

勘查单位地址：通辽市科尔沁区通郑路8号

发证机关
（专用章）
2005年　月　日

中华人民共和国国土资源部印制

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:		*HK$*
5,000,000,000	Shares of HK$0.02 each	100,000,000.00
Issued and fully paid or credited as fully paid:		
3,407,289,800	Shares of HK$0.02 each	68,145,796.00
600,000,000	Consideration Shares of HK$0.02 each to be issued pursuant to the Acquisition Agreement assuming no adjustment has to be made to the Consideration	12,000,000.00
371,428,571	Conversion Shares of HK$0.02 each to be issued pursuant to the Acquisition Agreement assuming no adjustment has to be made to the Consideration	7,428,571.42
4,378,718,371		87,574,367.42

All Shares in issue rank pari passu in all aspects, including all rights as to dividend, voting and interest in capital, among themselves.

All Consideration Shares and Conversion Shares shall rank pari passu with all the Shares in issue in all aspects, including all rights as to dividend, voting and interest in capital, among themselves and with all other Shares in issue on the date of allotment and issue of such Consideration Shares and Conversion Shares.

3. DISCLOSURE OF INTERESTS

(A) Interests of Directors and Chief Executive

(a) As at the Latest Practicable Date, the interests and short positions of the Directors and the Company's chief executives in the Shares, underlying Shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

Name of Directors	Number of Shares held	Capacity	Approximate shareholding
Hui Kee Fung *(Note)*	1,567,500,000 (L)	Interest of a controlled corporation	46.01%
Hui Ki Yau *(Note)*	1,567,500,000 (L)	Interest of a controlled corporation	46.01%

L: Long Position

Note: Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa, all being executive Directors and Hui's K. K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26% respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.

(b) As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

(c) None of the Directors had any interest, direct or indirect, in the promotion of, or in any assets which had been within the two years immediately preceding the issue of this circular acquired or disposed of by or leased to, any member of the Group.

(d) As at the Latest Practicable Date, none of the Directors were materially interested in any contract or arrangement which was significant in relation to the business of the Enlarged Group taken as a whole.

(B) Substantial Shareholders

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (other than a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name of Shareholder	Number of Shares held	Capacity	Approximate shareholding
Legend Win Profits Limited	1,567,500,000 (L)	Beneficial owner	46.01%
Yu Won Kong, Dennis	344,500,000 (L)	Beneficial owner	10.11%

L: Long Position

Note: Legend Win Profits Limited is a company incorporated in the British Virgin Islands. The issued share capital of Legend Win Profits Limited is beneficially owned by Hui Kee Fung, Hui Ki Yau, Hui Hung Tan, Teresa, all being executive Directors and Hui's K. K. Foundation Limited as to 38.95%, 32.63%, 23.16% and 5.26% respectively. Hui's K. K. Foundation Limited is a company incorporated in Hong Kong, limited by guarantee and does not have a share capital. Hui Kee Fung, Hui Ki Yau and Hui Hung Tan, Teresa are the registered members and directors of Hui's K. K. Foundation Limited.

(C) Substantial shareholders of other members of the Enlarged Group

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the persons or companies (other than a Director or chief executive of the Company) who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group were as follows:

Name of company	Name of shareholder	Number of shares held	Capacity	Approximate shareholding
Better Sourcing Worldwide Limited (formerly known as Miracles For Fun (HK) Limited)	Miracles For Fun, LLC	33 (L)	Beneficial owner	33%
Toland International Limited	Mr. Bruce Warren Solly	30 (L)	Beneficial owner	30%

L: Long Position

Save as disclosed herein, the Directors are not aware of any person who was, as at the Latest Practicable Date, directly or indirectly, interested or had short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, was directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

4. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation, arbitration or claim of material importance and there was no litigation, arbitration or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

There are no claims in relation to the exploration rights of the Xi Meng Coal Mine made or notified either by third parties against any member of the Enlarged Group or vice versa.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any member of the Enlarged Group nor were there any other service agreements proposed which would not expire or be determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation).

6. COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in a business which competes with the business of the Group.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are or may be material:

(a) the underwriting agreement dated 5 July 2006 entered into between the Company and Kingston Securities Limited and Luen Fat Securities Company Limited in relation to the open offer of 774,837,000 offer shares at HK$0.05 per offer share;

(b) the agreement dated 2 September 2006 entered into between Bright Asset Investments Limited, Yang Runzhi, Jumplex Investments Limited, First Choice Resources Limited and Wise House Limited, in respect of the contribution of RMB20 million (equivalent to approximately HK$20 million) to the registered capital of Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)# by Bright Asset Investments Limited in return for 51% equity interests in Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)#;

(c) the agreement dated 2 September 2006 entered into, among other parties, between Bright Asset Investments Limited, Bright Asset Investments Limited's nominee, Yang Runzhi, Jumplex Investments Limited, First Choice Resources Limited and Wise House Limited in respect of the payment of deposit for the contribution of RMB20 million (equivalent to approximately HK$20 million) to the registered capital of Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)# by Bright Asset Investments Limited in return for 51% equity interests in Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)#;

(d) the agreement dated 2 September 2006 entered into between Bright Asset Investments Limited, Yang Runzhi, Jumplex Investments Limited, First Choice Resources Limited and Wise House Limited in respect of the acquisition of an aggregate of 19% equity interests in Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)# by Bright Asset Investments Limited from Yang Runzhi, Jumplex Investments Limited, First Choice Resources Limited and Wise House Limited at a aggregate consideration of HK$42.9 million;

(e) the agreement dated 22 September 2006 entered into between Bright Asset Investments Limited as lender, and Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)# as borrower, in respect of the revolving loan facility of not exceeding RMB40 million;

(f) the agreement dated 22 September 2006 entered into between Bright Asset Investments Limited, Yang Runzhi, Jumplex Investments Limited, First Choice Resources Limited and Wise House Limited in respect of the provision of guarantees by Bright Asset Investments Limited, Yang Runzhi, Jumplex Investments Limited, First Choice Resources Limited and Wise House Limited for any future loan facility which may be secured by Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)#;

(g) the agreement dated 16 January 2007 entered into between Bright Asset Investments Limited and Choi Pui Sze in relation to the acquisition of the entire issued share capital of Jumplex Investments Limited at a consideration of approximately HK$14.6 million;

(h) the agreement dated 16 January 2007 entered into between Bright Asset Investments Limited and Lee Sai Yin, Jeanne in relation to the acquisition of the entire issued share capital of First Choice Resources Limited at a consideration of approximately HK$19.5 million;

(i) the agreement dated 16 January 2007 entered into among Bright Asset Investments Limited, Chan Aik Huat, Simon and Chung Cheuk Wah, Sammy, in relation to the acquisition of the entire issued share capital of Wise House Limited at a consideration of approximately HK$46.3 million;

(j) the agreement dated 16 January 2007 entered into between Bright Asset Investments Limited and Yang Runzhi in respect of the acquisition of an aggregate of 16% equity interests in Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)# at a consideration of approximately HK$39.0 million;

(k) the cancellation agreement dated 16 January 2007 entered into between Bright Asset Investments Limited, Yang Runzhi, Jumplex Investments Limited, First Choice Resources Limited and Wise House Limited in relation to the cancellation of the acquisition of an aggregate of 19% equity interests in Beijing Mingrunfeng Trading Co., Ltd. (北京銘潤峰商貿有限公司)#; and

(l) the Acquisition Agreement.

# denotes English transliteration of Chinese words and is provided for identification purposes only.

Save as aforesaid, no material contracts (not being contracts entered into in the ordinary course of business) have been entered into by any member of the Enlarged Group within the two years preceding the date of this circular.

8. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

The following sets out the procedures by which the Shareholders may demand a poll at the EGM.

According to article 66 of the articles of association of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

(i) the chairman of such meeting; or

(ii) at least three Shareholders present in person or in the case of a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(iii) a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation,by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or

(iv) any Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation, by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

9. EXPERTS AND CONSENTS

(a) The following are the qualifications of the experts who have given opinions and advice which are included in this circular:

Name	**Qualification**
Grand Cathay Securities (Hong Kong) Limited ("Grand Cathay")	A corporation licensed to carry on type 1, type 6 and type 9 regulated activities under the SFO
Cachet Certified Public Accountants Limited ("Cachet")	Certified Public Accountants
Castores Magi (Hong Kong) Limited ("Castores Magi")	Professional surveyors
RHL Appraisal Limited ("RHL")	Independent professional valuer
SRK Consulting China Ltd ("SRK Consulting")	Mining engineering consultants
Trend Associates (福建創元律師事務所)	Practising lawyers in the PRC

(b) None of Grand Cathay, Cachet, Castores Magi, RHL, SRK Consulting and Trend Associates has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of Grand Cathay, Cachet, Castores Magi, RHL, SRK Consulting and Trend Associates has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

(d) None of Grand Cathay, Cachet, Castores Magi, RHL, SRK Consulting and Trend Associates has any direct or indirect interest in any assets which had been acquired, or disposed of by, or leased to any member of the Enlarged Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Enlarged Group since 31 December 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

(e) SRK Consulting did not have any interest, direct or indirect, in the promotion of, or in any assets which had been within the two years immediately preceding the issue of this circular acquired or disposed of by or leased to, any member of the Group.

10. MISCELLANEOUS

(a) So far as is known to the Directors, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon any Shareholders; and (ii) no obligation or entitlement of any Shareholders, whereby he/ she/it has or may have temporarily or permanently passed control over the exercise of the voting rights in respect of his/her/its Shares to a third party, either generally or on a case-by-case basis.

(b) So far as is known to the Directors, as at the Latest Practicable Date, there was no discrepancy between any Shareholder's beneficial shareholding interest in the Company as disclosed in this circular and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting rights at the EGM.

(c) The company secretary and qualified accountant of the Company is Mr. CHAN Kwok Yuen, Elvis, *CPA, FCCA*.

(d) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and the head office and principal place of business of the Company in Hong Kong is at 14th Floor, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong.

(e) The principal share registrar in the Cayman Islands of the Company is Butterfield Fund Services (Cayman) Limited, P.O. Box 705, Butterfield House, 68 Fort Street, George Town, Grand Cayman, Cayman Islands.

(f) The branch share registrar of the Company in Hong Kong is Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(g) The English text of this circular and form of proxy shall prevail over their respective Chinese texts.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the registered office of the Company in Hong Kong at 14th Floor, Yale Industrial Centre, 61-63 Au Pui Wan Street, Fo Tan, Shatin, Hong Kong during normal business hours on any business day from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31 December 2006;

(c) the accountants' report on Lucky Dragon and Heng Yuan, the text of which is set out in Appendix II to this circular;

(d) the accountants' report on Jumplex, First Choice, Wise House and Mingrunfeng, and the report on the unaudited pro forma financial information of the Group and Jumplex, First Choice, Wise House and Mingrunfeng prepared by Cachet Certified Public Accountants Limited, the text of which is set out in Appendix III to this circular;

(e) the report on the unaudited pro forma financial information of the Enlarged Group prepared by Cachet Certified Public Accountants Limited, the text of which is set out in Appendix IV to this circular;

(f) the letter and valuation report prepared by RHL Appraisal Limited in relation to the exploration rights of Xi Meng Coal Mine and the mining rights of Huanghuashan Coal Mine, the text of which is set out in Appendix V to this circular;

(g) the letter, summary of values and valuation certificate prepared by Castores Magi (Hong Kong) Limited in relation to the property valuation of the Enlarged Group, the text of which is set out in Appendix VI to this circular;

(h) the technical assessment reports prepared by SRK Consulting China Ltd, the text of which is set out in Appendix VII and VIII to this circular;

(i) the letters of consents referred to under the paragraph headed "Experts and consents" in this Appendix;

(j) the material contracts referred to under the paragraph headed "Material contracts" in this Appendix;

(k) the PRC legal opinion;

(l) the Company's circular dated 30 March 2007 in relation to the very substantial acquisition of coal business – acquisition of entire equity interests in Mingrunfeng; and

(m) the Company's circular dated 20 November 2007 in relation to the continuing connected transactions.

侨雄國際控股有限公司
Kiu Hung International Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 00381)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "Meeting") of Kiu Hung International Holdings Limited (the "Company") will be held at Mont Blanc Room of the Pacific Place Conference Centre at Level 5, One Pacific Place, 88 Queensway, Hong Kong at 2:30 p.m. on Monday, 18 February 2008 for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the acquisition agreement dated 16 August 2007 and the letters of amendments dated 4 September 2007 (together the "Acquisition Agreement") entered into between Growth Gain Investments Limited, an indirect wholly-owned subsidiary of the Company, and Gold Dynasty Investments Limited (the "Vendor") relating to the sale and purchase of one share of US$1.00 in the share capital of Lucky Dragon Resources Limited ("Lucky Dragon") and the outstanding indebtedness of Lucky Dragon owed to the Vendor at completion of the Acquisition Agreement for a total consideration of HK$840 million (subject to adjustment), a copy of which has been produced to this Meeting marked "A" and signed by the chairman of this Meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) any one or more of the directors of the Company from time to time be and is/are hereby authorised to do all such acts and things and execute all such documents which he/she/they consider necessary or expedient in its/their opinion to implement and/or give effect to the Acquisition Agreement and the transactions contemplated thereunder;

(c) the allotment and issue of 600,000,000 shares (the "Consideration Shares") (subject to adjustment) of HK$0.02 each in the share capital of the Company to the Vendor at an issue price of HK$0.70 per Consideration Share, credited as fully paid, to the Vendor pursuant to the Acquisition Agreement and the transactions contemplated thereunder be and is hereby approved;

(d) any one or more of the directors of the Company from time to time be and is/are hereby authorised to allot and issue the Consideration Shares in accordance with the terms of the Acquisition Agreement and to take all steps necessary or expedient in his/her/their opinion to implement and/or give effect to the allotment and issue of the Consideration Shares;

(e) the issue of convertible note(s) (the "Convertible Note(s)") in the principal amount of HK$260 million (subject to adjustment) of the Company to the Vendor in accordance with the terms and conditions of the Acquisition Agreement and the transactions contemplated thereunder be and is hereby approved; and

(f) any one or more of the directors of the Company from time to time be and is/are hereby authorised to take all steps necessary or expedient in his/her/their opinion to implement and/or give effect to the issue of the Convertible Note(s) including but not limited to the allotment and issue of the shares of HK$0.02 each in the share capital of the Company which may fall to be issued upon the exercise of the conversion rights attached to the Convertible Note(s)."

By order of the Board of
Kiu Hung International Holdings Limited
Hui Kee Fung
Chairman

Hong Kong, 31 January 2008

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Head office and principal place of business in Hong Kong:
14th Floor
Yale Industrial Centre
61-63 Au Pui Wan Street
Fo Tan, Shatin
Hong Kong

Notes:

1. A member entitled to attend and vote at the Meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, to vote on his behalf. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of Shares in respect of which each such proxy is so appointed.

2. A form of proxy for use at the Meeting is enclosed. Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, at the offices of the Company's branch share registrar in Hong Kong, Tricor Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the Meeting or any adjournment thereof, should he so wish.

3. In the case of joint holders of shares, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto, but if more than one of such joint holders are present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such shares shall alone be entitled to vote in respect thereof.